★ The STOCK MARKET Into 1947 ★

The MAGAZINE of WALL STREET
and BUSINESS ANALYST

DECEMBER 7, 1946 50 CENTS

To Investors Who Hold—

CUMULATIVE GROWTH STOCKS

—For Long-Term Capital Gains

By H. S. COFFIN

★ ★ ★

NEED For NEW CAPITAL By LARGE CORPORATIONS

—Weighs Individual Financing From Investment Standpoint

By JOHN D. C. WELDON

★ ★ ★

What About NON-FERROUS METALS—NOW?

By GEORGE L. MERTON

United Merchants and Manufacturers Inc.

WILMINGTON, DELAWARE

18th Annual Report

for the fiscal year ended June 30, 1946

The financial statements presented below are subject to footnotes published in the annual report of the Company.

CONSOLIDATED BALANCE SHEET AS AT JUNE 30, 1946

Assets

CURRENT ASSETS:			
Cash on hand, in banks and in transit		$10,995,208	
United States Government Securities—at cost or redemption value and accrued interest (Market Quotations $12,232,415)		11,843,740	
Foreign Government Bonds—at Cost (Market Quotations $584,199):			
Canadian Government Bonds	$ 555,990		
Argentine Government Bonds	23,730	579,720	
Trade accounts, notes and acceptances receivable, less reserves of $330,316		11,665,506	
Accounts and notes receivable purchased, less reserves of $298,459		9,791,100	
Merchandise Inventories:			
Raw materials and supplies	$ 3,500,983		
Goods in process, including greige goods	14,662,033		
Finished goods	5,767,952	23,930,968	
Other receivables (including $438,256 due from associated companies—not consolidated)		1,355,647	$70,161,889
INVESTMENTS IN SUBSIDIARY AND ASSOCIATED COMPANIES—not consolidated—book value as per financial statements as at June 30, 1946 or as at the nearest dates thereto—approximately $3,986,000			1,947,072
OTHER ASSETS:			
Sundry receivables and investments (including $426,553 representing cash surrender value of life insurance policies and deposits with mutual insurance companies)		1,008,961	
Canadian post-war excess profits tax refunds		217,588	1,226,549
FIXED ASSETS:			
Land, buildings and water rights	$10,436,044		
Machinery, equipment and leasehold improvements	17,076,548	27,512,592	
Less: Reserves for depreciation and amortization		15,039,399	12,473,193
DEFERRED CHARGES			866,087
PATENTS, GOODWILL AND TRADEMARKS			3
			$86,674,793

Liabilities

CURRENT LIABILITIES:			
Notes and acceptances payable—banks		$10,554,445	
Credit balances of factored clients		6,363,063	
Trade accounts payable, sundry liabilities, accrued expenses, etc.		10,644,780	
Reserve for Federal and foreign income and excess profits taxes	$12,847,553		
Less: United States Treasury Savings Notes, Series C and accrued interest	3,400,597	9,446,956	$37,009,244
RESERVE FOR CONTINGENCIES			3,500,000
MINORITY INTEREST IN CAPITAL STOCK AND SURPLUS OF SUBSIDIARY COMPANIES—CONSOLIDATED			3,558,266
CAPITAL STOCK:			
5% Cumulative Preferred Stock, Par Value $100 per Share:			
Authorized and issued	54,000 shares		
Less: In treasury	305 shares		
Outstanding	53,695 shares	5,369,500	
Common Stock, Par Value $1.00 per Share:			
Authorized	4,000,000 shares		
Issued (including 296.56 shares still to be issued in exchange under plan of capital stock readjustment) and stated at par value of $1 per share plus $6,451,790 added to capital by resolutions of the Board of Directors	1,335,875 shares	7,787,665	
SURPLUS:			
Capital surplus		2,174,077	
Earned surplus, since August 1, 1932		27,703,092	
		43,034,334	
Less: Held in Treasury—54,850 shares of Common Stock at cost		427,051	42,607,283
			$86,674,793

FACTS FOR OUR STOCKHOLDERS

	Year Ended June 30, 1946	Year Ended June 30, 1945	Year Ended June 30, 1944	Year Ended June 30, 1943	Year Ended June 30, 1942	Year Ended June 30, 1941	Year Ended June 30, 1940	eleven Months Ended June 30, 1939
NET PROFITS (*After Reserves for Contingencies*)	$ 9,098,705	$ 5,334,049	$ 4,984,098	$ 4,256,656	$ 3,787,902	$ 2,623,132	$ 2,021,620	$ 1,466,196
PREFERRED STOCK DIVIDENDS PAID	272,225	283,438	285,923	—0—	—0—	—0—	—0—	—0—
EARNINGS PER SHARE ON OUTSTANDING COMMON STOCK (*After Preferred Dividend*)	6.89	3.99	7.43	7.40	6.41	4.37	3.37	2.44
NUMBER OF SHARES OF COMMON STOCK OUTSTANDING	**1,281,025	*1,264,772	632,388	575,174	590,528	599,903	599,658	599,956
DIVIDEND RATE PER SHARE ON COMMON STOCK	$ 2.20	$ 1.50	$ 2.00	$ 2.00	$ 1.50	$ 0.50	$ 0.25	—0—
BOOK VALUE, COMMON STOCK PER SHARE (*After Reserves for Contingencies and after deducting outstanding Preferred Stock at $104 per Share*)	28.90	24.45	43.91	42.24	34.96	29.59	25.47	22.45
NET QUICK ASSET VALUE, COMMON STOCK PER SHARE (*After deducting outstanding Preferred Stock at $104 per Share*)	21.52	19.78	32.46	27.17	19.43	15.72	12.52	9.62
WORKING CAPITAL	33,152,645	30,919,282	26,430,708	21,869,651	11,475,098	9,435,368	7,514,932	5,771,526
DEPRECIATION AND AMORTIZATION OF FIXED ASSETS	872,024	842,018	864,304	723,208	564,146	548,923	474,379	387,853
RESERVE FOR CONTINGENCIES	3,500,000	3,500,000	3,000,000	1,750,000	1,000,000	400,000	—0—	—0—
CAPITAL AND SURPLUS: PREFERRED STOCK	5,369,500	5,669,500	5,674,500	6,000,000	—0—	—0—	—0—	—0—
COMMON STOCK AND SURPLUS	37,237,783	31,150,192	27,995,640	24,536,754	20,643,380	17,755,596	15,281,354	13,471,241
TAXES PAID OR ACCRUED: NORMAL INCOME AND OTHER	6,144,000	3,833,000	3,172,000	2,233,000	3,076,000	1,308,000	739,000	634,000
EXCESS PROFITS	5,309,000	7,396,000	8,606,000	5,909,000	3,317,000	322,000	42,000	—0—

*Stock split 2 for 1, March 7, 1945. **Stock split 3 for 1, August 14, 1946.

This report is not a representation, prospectus or circular in respect of any stock of this corporation and is not presented in connection with any sale or offer to sell or buy any stock or security now or hereafter to be issued.

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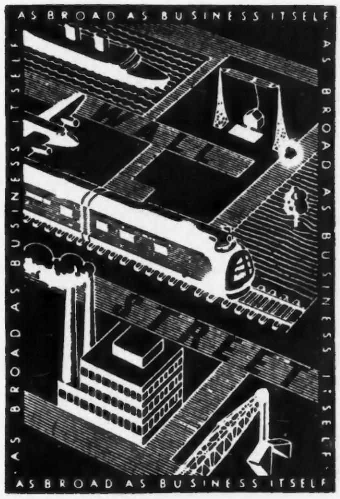
Makers of Containers Face Large Demand

In view of serious shortages in metal supplies, manufacturers of paperboard containers are experiencing an active business. The picture shows yard-long lengths of paper tubing, automatically sawed off as it moves along the mandrel. From the tubes will be fashioned containers for paint, an efficient substitute for the metal cans which formerly invited buyers' attention in the retail stores and display counters.

THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Publisher*



The Trend of Events

APPRAISING FLOW OF DIVIDENDS — At a time when the economic skies are being scanned for an augury of what lies ahead for business, the substantial number of dividend increases and year-end disbursements is attracting considerable attention. To some observers, this is interpreted as a vote of confidence by business management on our economic future. If directors had any serious misgivings about business prospects, this line of reasoning goes, they would be husbanding corporate reserves rather than distributing them in the form of more liberal disbursements. The rise in dividends is also seized upon by labor leaders as added argument for wage boosts, since the former must be a proof of rising corporate prosperity.

With fallacies such as these in circulation, and, what is worse, receiving credence in otherwise "informed" quarters, it is essential to reconsider some of the cold, hard facts about corporate dividends. Actually, corporate management's initiative on dividend outlays this year is greatly abridged by tax considerations, as Section 102 of the revenue code provides penalties where more than 30% of annual earnings are retained in surplus. While the Treasury has been lenient on enforcing this ruling during the war years, it is now expected to press for more vigorous enforcement, thus obliging corporations in most instances to distribute at least 70% of annual earnings in the form of dividends. The only exceptions to the 70%-of-earnings formula seem to be where definite need can be proved by the corporation for the funds for some specific purpose, such as meeting emengencies, plant expansion, etc. And even on such matters, the rulings do not seem too clear.

However much it may appear to benefit the stockholder in the way of immediate dividends, this legislation has been soundly criticized on various other grounds, chief of which is the contention that it tends to prevent corporations from accumulating substantial surplus against future lean periods.

Another glaring inequity in our tax structure with respect to dividends is the "double taxation" feature. As our law is presently constituted, corporate shareholders are really taxed twice, first, indirectly when the corporation's earnings are subject to levy, and, secondly, when the stockholder is forced to pay a tax on dividends secured from these same corporate earnings. While this may not be particularly burdensome to the smaller stockholder, it is a vital problem to large capital owners, who, being mainly in the upper income brackets, find most of their dividend income taxed away. This constitutes just another restraint on the free flow of venture capital at a time when it faces an unprecedented number and variety of other obstacles. Until these and other anomalies are corrected, venture capital—the lifeblood of free enterprise—can never operate to maximum advantage.

While on the subject of dividends, the major question just now is what will be the trend of corporate

Business, Financial *and* Investment Counselors : 1907—*"Over Thirty-nine Years of Service"*—1946

disbursements after 1946. Payments thus far this year have been running about 14% ahead of 1945, the latest figure reported being $451,800,000 for September, compared with $396,200,000 in the corresponding month of last year. For the third quarter, disbursements aggregated $1,007,400,000, as against $878,700,000 in the like period a year previous. However, it remains to be seen how December payments this year will compare with those for the 1945 month, since disbursements in the latter period totalled $768,200,000, one of the largest figures on record.

And, looking ahead to 1947, it will be interesting to note the trend of payments in the early months of the year compared with corresponding 1946 periods, which as has been stated, have been at a comparatively high level. 1947 disbursements will depend upon many considerations, chief of which is the question of corporate profit margins. While volume of business activity may prove to be high, everything depends on how profitable such activity will be. With the uptrend in labor, material and processing costs constricting profit margins, the course of 1947 business earnings remains to be seen.

FOREIGN CREDITS—The age in which we live is marked by superlatives and extremes, both good and bad, but nowhere are extremes more pronounced than in the realm of business and financial figures. We have become so accustomed after a decade of government spending, war and upheaval, to seeing figures of astronomic proportions that many of the multi-cipher statistics eventually lose their significance, or perhaps it is that our sense of proportion becomes dulled.

In the process of watching long-strung out digits on Federal debt, taxes, national income, production and other economic indicators, one should not overlook the billion-dollar statistics bearing upon certain aspects of our foreign trade. Unlike some statistics, they have interesting implications. In line with our policy of financially aiding our allies and other friendly nations, this Government has extended credits amounting to some $9 billion. Some of this credit has been in the form of direct loans, some in advances, others in the form of opening lines of credit, some in the shape of property credits.

The mechanics and bookkeeping involved in these various Government transactions are rather involved, but the loans may be described as direct and guaranteed obligations, as was the grant to Great Britain some months ago. Advances are credits extended against future delivery of certain commodities, such as rubber, copper, sugar, etc., in a sense, a prepayment by this country for goods and/or services yet to be received. The line of credit, as extended to foreign nations, has been chiefly in the way of informal lending, without particular provisions as to terms of repayment, as was the $500 million credit to China in 1942. Property credits arise mainly from settlement of Lend-Lease transactions, and from sale of surplus property abroad.

Out of the $9 billion aggregate of all these types of loans, some $3.8 billion or more than 40% has already been drawn upon. Of the slightly more than $5 billion remaining, a substantial part is represented by the British loan, so that the question of whence foreign credits will come will eventually arise. The Export-Import Bank is usually thought of in this connection, but this agency's lending ability has been greatly curtailed. Nominally, its lending capacity approximates $800 million, but of this sum, $500 million is earmarked for China. With election of a new Congress and a rising opposition to largess to foreign borrowers, it is unlikely that the Bank's lending power will be increased. Eventually, informed observers believe, the credits will be supplied by the new International Rconstruction Bank which was set up to aid economic rehabilitation and speed the return of stability in world trade.

FIVE YEARS AFTER—In the passage of time, it seems hard to realize that five years have elapsed since that fateful Sunday when Japan struck without warning at Pearl Harbor. So much has been crowded into those hectic years that the interval of time seems much longer. Certainly, they have been among the most crucial years in our nation's history, covering our worst and bloodiest war, and postwar reconversion problems without precedent.

In thus observing the Pearl Harbor anniversary, comparisons between then and now are inevitable. December 7, 1941—"the day that will live in infamy" found us in a semi-belligerent status. While technically we were at peace, our industry was being rapidly geared to a war basis, both to fulfill our commitments to the Allies and in the event of our own direct participation. Through lend-lease and other measures, we were extending "aid short of war." Psychologically, both industry and the public were being fortified for an eventual crisis, and in the industrial realm, "conversion" was the keynote. The nation's manpower was also being mobilized for an eventual showdown, and while this prospect was regarded as a last resort, it was faced with confidence.

Today, half a decade later, "reconversion" is the theme of business, and of the American people. While we have made great strides toward returning to a peace basis, the transition has been anything but smooth and satisfactory, aggravated by recurrent strikes and critical shortages. We still have a long distance to go, and at this writing, our economy is reeling under the shock of the coal strike precipitated by John L. Lewis. However, the same faith and fortitude that carried this nation through the worst crisis in its history can bring victory over our reconversion problems, too, provided it is backed by the cooperation and effort that helped win the war.

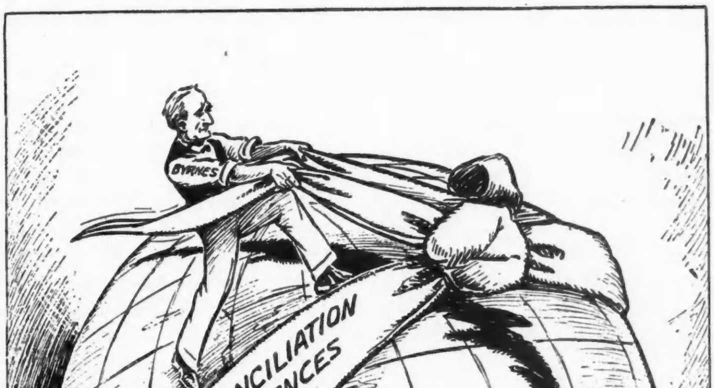
As I See It!

By CHARLES BENEDICT

SUPERSTATE

THE ONE WORLD IDEA is the most fantastic dream ever set forth as a realistic goal. It seems that because genius has succeeded in pushing out the frontiers of knowledge and discovered the way to instantly communicate with the far corners of the earth, idealists believe the brotherhood of man is close at hand.

Coming on top of the colossal failures in administrating even small entities, and the inability to produce a workable peace, such a plan constitutes a dangerously tilted intellectual unbalance against which we must rise with all the strength we possess because following in the wake of these idealists are opportunists whose imagination has been stirred to a point where they scheme to control the lives and destinies of all mankind.



The Way to Hold It Together!

Man has struggled toward one world for two thousand years, but it was a spiritual world — enabling men to conduct their various activities on a sound code of ethics which was just and fair to all concerned. Christ in His wisdom recognized that spiritual development alone made it possble for men to become brothers regardless of clime. Who will say that we are spiritually prepared to meet the crises of today?

Administrating one world would call for supermen with an objective viewpoint dedicated to justice for all. And if there were any such men or group of that stamp in the world today, they would have the wisdom to know that it would be impossible to successfully carry out a program of such vast proportions under current conditions. The very differences in environment, habit, custom, and climate would make it impossible, let alone the unpreparedness, the distrust the greed and lust for power.

They would realize that a super-central government was not the solution, but that individual states collaborating one with the other in a "give and take" would harmonize the interests of all concerned. In this way a great deal could be accomplished for human beings instinctively gravitate toward good and can be moved to respond in kind by justice, sincerity and decency. It is only through disillusionment that men follow other paths.

As long as affairs are conducted without adequate consideration for human relations and ethics, one world is an impossibility at this time. Economically we would be entering a strange world, and, in the struggle between the two forces—the Russian philosophy of scarcity and the American philosophy of abundance, we would be certain to flounder because of the inadequacy of our leaders in meeting the titanic problems of adjustment and balance.

The one world experiment—for that is what it would be—would inevitably lead to totalitarianism and enslavement as did the Russian experiment in communism when disillusionment came.

In fact, every experience points away from top-heavy government structures to less formidable ones. Nations, collaborating one with the other for their mutual good under a "live and let live" code, alone can bring the harmony, peace, and economic stability we are seeking.

The Stock Market Into 1947

The coal strike clouds nearby market prospects, but good support has been shown lately, and the chances are that there will be some degree of year-end rise, possibly sharp. As detailed below, those who have not built up adequate cash reserves on our previous advices should plan now for early liquidation of their more undesirable holdings.

By A. T. MILLER

THE STOCK MARKET continues to be a trading-range affair. Therefore, from the technical viewpoint, there is not a great deal which requires discussion, for the essence of a trading-range pattern is the lack of trend. For about 12 weeks the daily averages have done no more than "back and fill" within well-defined limits. *The major downward trend is in suspension. It would take a decline through the October-November triple-bottom in the averages to reaffirm it. On the other hand, a rise above the previous rally high—about 176 in the Dow industrials and approximately 51 for the rails—could not safely assume to imply more than an intermediate recovery.* From the present point, reliable trend evidence of a new bull market could not develop except over a considerable period of time.

As this is written, trend indications are about as completely negative as it is possible for them to be, for the averages once more are about mid-way in the range above cited. It could be argued that the way the list has held up under repeated selling tests—and especially under the impact of the coal strike—is encouraging. But it could also be argued that (1) in past bear markets there were some long interludes without new lows, which proved to be *only* interludes; and (2) that so far every rally has been quickly snuffed out by offerings which come in after only moderate advances.

As emphasized by the graphs on the opposite page, the daily gyrations have footed up to a lot of aimless movement in recent weeks (see Dow-Jones lines), without net progress (see Magazine of Wall Street weekly indexes). Our Market Support indicator, on this page, has yet to reverse the major selling signal which it gave last July. All that can be said of it is that the supply line, while still dominant, has at no time risen much since mid-September, whereas the demand line has trended moderately and irregularly upward. The latter evidence could improve quite a bit further without necessarily implying more than rally possibilities.

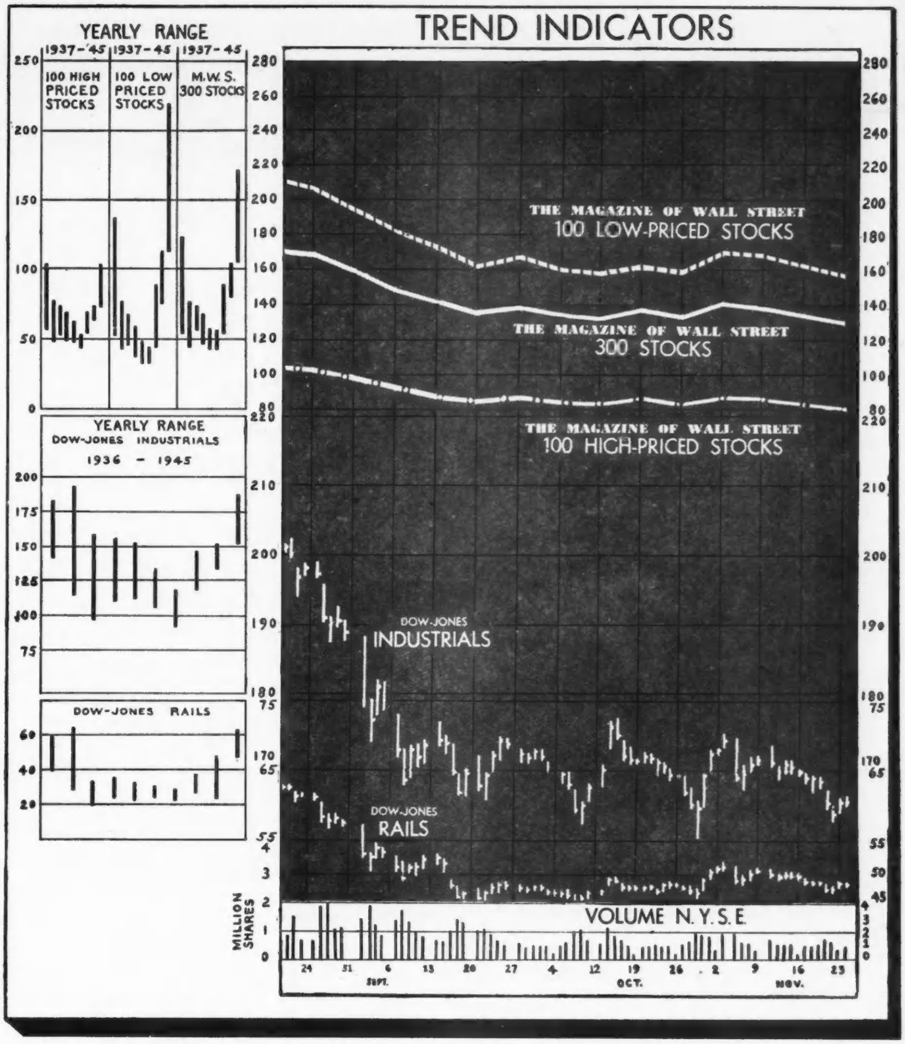
Some Seasonal Considerations

We are not far from the time when tax selling has usually abated and when there has been a seasonal upturn in the market—the traditional year-end rise—in an overwhelming majority of past years as far back as reliable averages go. The December low has usually tended to fall early in the month in bull-market years, a little after mid-month, on an average, in bear-market years. (This is, of course, a bear-market year). While there have been exceptions both ways, this typical advance—measured from the December low in the Dow industrial average to the high of the first half of January—has averaged considerably more in percentage in bear-market than in bull-market years. The reason is that bear-market rallies tend to be fast because of the technical springboard set

up by preceding large decline.

There are, of course, some imponderables affecting the question whether a seasonal rise is likely this year and, if so, whether it may amount to much. Probably many people hope to see it as an opportunity for paring down speculative holdings. If so, it could have hard going. True, the same point could have been made in past bear markets—in most of which there were good year-end rises—but in the present regulated market there is much less short-term speculative support, of the rally-making type, than there was in earlier years.

Again, it is impossible to foresee how the coal strike will affect the near-term market performance. There is considerable belief—some of it in usually well-informed quarters — that the strike probably will be settled before Christmas, possibly by mid-December. If so, that should facilitate a rally by removing a handicap. However, it must be noted that for some time the market response to goods news (witness the election) has been rather limited, and that the end of the coal strike would be good news in a quite restricted sense, unless the terms of settlement amount to a real defeat for John L. Lewis. (It need hardly be said that indications pointing to a coal stoppage running into January would give joy to nobody but the Communists and their Boss in the Kremlin.)



We are well aware that there is scant guidance for you in what has been said on the short-term pros and cons—but they *are* two-sided, and we have no crystal ball. Under the circumstances, what is a sensible policy? In our opinion, it is along these lines: Do not buy for a year-end rise. In a bear market the aim should be to sell on rallies, if you are still carrying too much speculative stuff, just as the aim in a bull market should be to buy on reactions. Those who have not built up adequate reserves in cash—or its equivalent in highest-grade income securities—should plan to do some selling on strength, if we get it, late this month or very early in January. If we do not seasonal strength before New Year's Day, we would do some speculative selling anyway, and very promptly, on the reasoning that a bear market which fails to produce a good rally toward the year-end is probably even more of a liquidating proposition than had been apparent.

The Basic Factors

So far as the basic situation is concerned, it is beside the point, as we see it, that business (except as affected by strikes) is still at a high level; that earnings and dividends are generally excellent; and that prices, excepting for a few farm commodities, are still going up. Prices have already gone too high; and the purchasing power of a majority of our people has been declining for many months, because prices outran their incomes. The price level has got to come down and stabilize before we can have a sound prosperity, with increased productivity and a genuine rise in the national living standard. And we cannot have the required degree of correction without a decline in business activity, especially in the abnormally inflated soft-goods lines.

Possibly the rest of the bear market may be unspectacular, but we are not convinced it is over.—Monday, December 2.

Why Many Large Corporations . . .

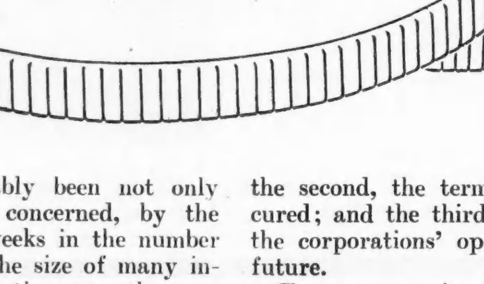
ARE NOW SEEKING *New Capital*

★ ★ ★

By JOHN D. C. WELDON

Most investors have probably been not only surprised, but distinctly concerned, by the sharp increase during recent weeks in the number of new security issues and in the size of many individual offerings. Until a short time ago, the government economists were still explaining how the country's large corporations had reached a state of "economic maturity" and could finance themselves henceforth from their own retained earnings and from depreciation reserves. Moreover, studies of the increase in working capital during the war period were presented as indicating little need on the part of large corporations for the long-term investment market or even for bank credit. Finally, business profits, according to the repeated assertions of some of the labor organizations, are soaring to the highest level in history and providing surplus funds available for large additional wage increases.

Against this background, announcements almost daily of one leading corporation after another seeking millions in new capital through borrowing or stock issues naturally raises numerous questions. The first is the use to what the money is to be put; the second, the terms upon which it is being secured; and the third, the effect it may have upon the corporations' operations and dividends in the future.



From an examination of the new offerings it will be seen that they are described as for many different purposes, yet most of them (other than refunding) fall in the general category of new money for "expansion." The terms are too varied to permit much generalization, except the low interest rates at which long-term money is being obtained. The third, as to the wisdom of expansion plans, might well be called the "$64,000,000 question" and only time can give the answer.

Following the September stock market slump, which interrupted the substantial flow of new offerings during 1946 up to that time (and was attributed in part to an excess of sub-standard issues accumulated in dealers' hands), the volume was resumed in October and stepped up in November, with many more in process of registration for December and January. The accompanying chart shows the S.E.C. figures of new offerings this year, classified by types.

Issues of recent months dif-

fer somewhat from those in January-August in that they are made up predominantly of large and well-known companies, with relatively few new names being introduced to the public investment market for the first time. The recent offerings include a number of large public utility and railroad issues such as American Telephone & Telegraph Co. ($350,377,-300 de. 2¾s of 1961) and its subsidiaries Pracific Telephone & Telegraph Co. ($75,000,000 deb. 2⅞s of 1986) and Illinois Bell Telephone Co. ($32,-499,800 common stock); also Consumers Power Co. ($16,750,000 common stock), Pacific Gas & Electric Co. ($25,000,000 2¾s of 1981), Safe Harbor Power Co. ($14,000,000 3s of 1981), New York Central Railroad ($20,000,000 eq. tr. certif.), and Duluth, Missabe & Iron Range Rwy. ($19,200,000 serial 1947-62). These issues were mostly for new money, with only a small part for refunding. Perhaps the chief interest, however, centers in the new industrial issues, of which a representative list of twenty of the more important is given below:

WORKING CAPITAL OF 774 MANUFACTURING CORPORATIONS

(In Millions of Dollars)

Current Assets	Dec. 1939	Dec. 1944	June 1946
Cash	$2,781	$4,961	$4,728
U. S. Govt. secur.	532	5,755	4,276
Receivables, U. S. Govt.	18	3,288	545
Receivables, other	2,209	2,860	3,047
Inventories	5,026	8,559	8,360
Other current	306	223	484
Total current	$10,872	$25,646	$21,440
Current Liabilities			
Notes payable, banks	$179	$1,219	$554
Trade notes & accts.	944	2,846	2,112
Advances, U. S. Govt.	16	1,262	171
Reserve for taxes	701	5,429	2,596
Other current	617	1,854	1,393
Total current	$2,547	$12,610	$6,826
Working Capital	8,415	13,036	14,614
"Current Ratio"	4.44	2.03	3.14

Among the borrowings by the industrial companies, the terms indicate the belief on the part of lenders that low money rates will continue for a long time. General Electric borrowed $150,000,000 at 2.55% for 20 years from 11 insurance companies and 3 trustees, plus $50,000,000 at 1⅝ for 5 years from banks. Schenley Distillers borrowed $125,000,000 from 41 banks, part at 1¾% for 5 years and part at 2% for 9 years. Goodyear Tire & Rubber obtained a $75,000,000 5 year bank credit at 1½%. Liggettt & Myers Tobacco sold $75,000,-000 in 20 year debenture 2⅝s to 3 insurance companies, while R. J. Reynolds Tobacco sold $60,000,-000 in 2½% serial notes running up to 20 years to one insurance company. Bethlehem Steel sold $50,-000,000 in 30 year 2¾% bonds.

Type of Financing

A number of large companies have issued stock instead of, or in addition to, borrowing, the largest being General Motors with $100,000,000 new preferred stock, after having borrowed $125,000,000 privately in August on 20-30 year 2½% notes.

This new financing of almost $1 billion by only the 20 companies given in the table, some of which was for refunding but most for new money, comes in spite of a general and substantial increase in their capital funds that has taken place in recent years. Combined net worth of the group rose from approximately $3,158,000,000 at the end of 1939 to $3,-994,000,000 at the end of 1945, a rise of $836 millions or 26%. During the same period, however, their combined sales expanded from $3,730,000,000 to $9,955,000,000, an increase of $6,225,000,000 or 166%.

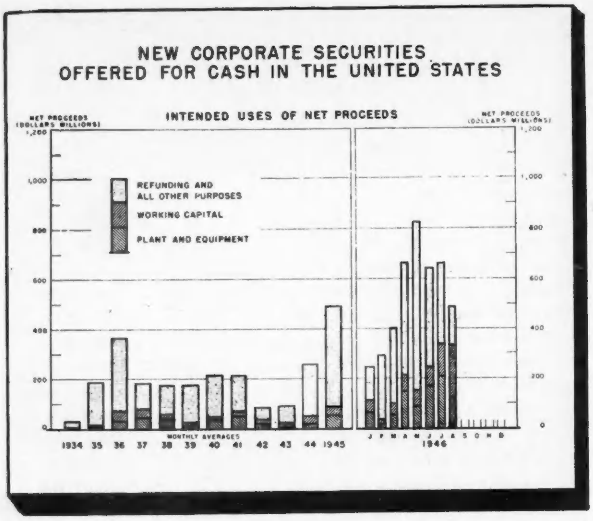
Large Industrial New Security Issues Since October 1

Bethlehem Steel Corp.	$50,000,000
Continental Motors Corp.	10,000,000
Crown-Zellerbach Corp.	20,000,000
Crucible Steel Co.	25,000,000
Dow Chemical Co.	30,000,000
General Electric Co.	200,000,000
General Motors Corp.	100,000,000
Goodyear Tire & Rubber Co.	75,000,000
Gulf Oil Corp.	35,000,000
H. J. Heinz Co.	18,400,000
Liggett & Myers Tobacco Co.	75,000,000
R. H. Macy & Co.	20,000,000
Monsanto Chemical Co.	30,000,000
Northwest Airlines	10,000,000
Park & Tilford	10,000,000
R. J. Reynolds Tobacco Co.	60,000,000
Schenley Distillers Corp.	125,000,000
Standard Brands	21,500,000
Venezuelan Petroleum Corp.	25,000,000
Hiram Walker-Gooderham & Worts	30,000,000
Total	$969,900,000

Such expansion in sales and capital was typical of the manufacturing industries generally. A recent S.E.C. survey of the balance sheets on June 30, 1946 of 774 listed manufacturing corporations showed that net working capital on that date, totaling $14,610,000,000, was only slightly below the $14,879,000,000 at the end of 1945, and contrasted with $8,415,000,000 for the same companies at the end of 1939. The following condensed summary shows some interesting shifts in a number of items since the end of 1944 in connection with the termination of government contracts and the liquidation of tax liabilties. Cash holdings have been well maintained.

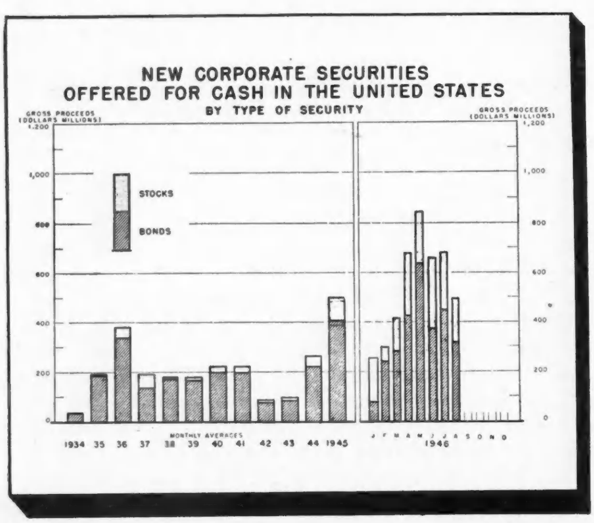
Finally, the recent new financing other than bank borrowing is in addition to a steady increase that has been taking place in commercial bank loans, which since the beginning of 1946 have risen by more than $2,500,000,000 or 35%.

The Federal Reserve Board has just issued in its "Bulletin" a survey, as part of its series of postwar economic studies, indicating the need for additional heavy financing by business through bank borrowing or new security issues in order to meet the capital requirements that will be called for, on the basis of the prewar relationships of output, sales, liquid assets, inventories, and earnings, by a continued high level of business volume at the higher price levels now prevailing.



Apparently the officers and directors of many large corporations do not regard themselves as having an excessive supply of cash, despite the speeches of labor union leaders as to corporate prosperity. This is another instance where "averages" are deceiving, since the surplus funds of one corporation are not pooled for the use of others.

The reasons for the present expansion of industrial capital are varied, but in most cases are for extension and modernization of plant and equipment, including plants acquired by merger or by purchase from the R.F.C. In addition, more capital is required to carry inventories because of the higher costs of raw materials and supplies, higher wages to labor, and the unbalance of many inventories due to shortages of certain component parts. More capital is needed also to carry receivables, which reflect both the higher prices at which goods are sold, and the resumptio of trade credit extension following the termination of government contracts which in many cases were financed by advances and progress payments. New capital is often needed to replace that lost by the costs of reconversion and strikes, even



after the offset of tax carrybacks. Doubtless another reason for desiring additional capital is uncertainty as to the longer-term outlook.

One of the most serious questions that business men are now asking, is whether today's costs for new building and improvements are not excessively high relative to what they get for the money, and therefore whether construction not already under way should not be suspended indefinitely until more adequate supplies of better quality materials are available, and until building trade labor is willing to give more work per dollar paid.

It is true that a large volume of new building construction is still forecast for 1947, at costs up perhaps 25%, and with more materials and better productivity, yet there is widespread evidence that plant expansion is far behind schedule and that costs have proven much higher than expected.

Various Problems Involved

Another question is whether the increased plant capacity will all be needed to supply normal market requirements, taking into account the effect upon consumption of the sharp increase in prices. The keen competition that has developed in table radios (but not yet in the larger models, for which cabinets are still scarce) is an illustration worth pondering. The test for each industry will come as soon as the most urgent demands for its products have been satisfied, and real competition returns.

Other questions that cannot be answered at this time, but nevertheless must be considered, are the extent to which the new financing will either dilute the present shareholders' equity by broadening the base, or increase the "leverage" for the equity by raising the proportion of capitalization in the form of debt. Measurement must be made also of the prior charges that are created for interest, preferred dividends, and sinking funds.

Effect Of New Financing

Business men, economists, and investment analysts appear to be noting a steadily increasing number of parallels between conditions today and those in 1920 before the severe, though short-lived, primarly postwar depression.

Numerous reorganizations that followed the 1920 crash were confined principally to companies that had built up heavy debt, in such lines as sugar and other food products, paper, leather, textiles, chemicals, petroleum, steel, automobiles, machinery, heavy equipment, and shipbuilding. For companies with little debt, a period of lean earnings or deficits seldom caused bankruptcy. Experience at that time showed also that the various losses incident to the war (which in few cases were provided for by reserves) could not always be assessed during the first or second postwar year, but might not be calculated fully until several years afterwards.

In short, the factor determining whether or not the present expansion of industrial plants is justified would seem to be whether, in the case of each major industry and the principal companies in that industry, the volume of busi- (*Please turn to page* 283)

Re-Opening FOREIGN TRADE CHANNELS

Photo by INP

American made products are being shipped to foreign buyers in a record breaking peacetime volume. No let up is in sight until production abroad expands decidedly.

By V. L. HOROTH

LAST MONTH THE United States took another important step on the road leading to freer, expanding international trade. Some 18 countries, whose trade accounts for about two-thirds of all international trade, were invited by Washington to participate in the largest reciprocal trade agreement negotiations ever undertaken by this country. For concessions lowering their tariff barriers and admitting our goods more freely to their markets, we are prepared to grant them concessions in our own huge internal market. These concessions may be quite substantial, for under the Trade Agreement Act of 1945 the tariffs, which have already been reduced by 50 per cent from the 1930 Tariff Act levels, may be cut an additional 50 per cent without specific sanction of Congress, making a net reduction of 75 per cent. Broadly interpreted, our invitation means that we are willing to broaden our imports and thereby enable foreign countries to earn more dollars in current trade transactions.

The invitation to discuss trade concessions marks the third step in our postwar campaign for a larger and freer international trade. The first move was the establishment of the International Monetary Fund and of the International Bank for Reconstruction, with the purpose of stabilizing currency and speeding up postwar reconstruction as a prerequisite for expanding international trade. The second step was the conclusion of the Anglo-American Trade and Financial Agreements, with the objective to help Great Britain—the world premier trading nation—with post-war transition problems, to reestablish free convertibility of the pound sterling into all currencies, and to secure British cooperation in promoting multilateral trade and equality of treatment in international trade. Naturally, the lowering of trade barriers to international trade is not enough in itself; it will have to be followed by agreements aimed at ending other forms of trade discrimination, such as quota systems, preferential tariffs, and bilateral trading.

The decision to do something concrete about the lowering of the tariff barriers was not unexpected. Invitations to discuss tariff reduction had been sent to the leading trading countries almost one year ago. That was shortly after the State Department made public *"The Proposals for Expansion of World Trade and Employment"*, a sort of blueprint of our foreign economic policy. But the conference was postponed on a number of occasions. There were other things to do. The Anglo-American Trade and Financial Agreements had to be gotten out of the way. Several international conferences had to be called to put the finishing touches on the two Bretton Woods institutions.

Last month (beginning Oct. 15) a preparatory committee named by the Economic and Social Council of the United Nations met in London to discuss and modify the draft of our State Department (published last September) of a *"Charter for an International Trade Organization of the United Nations"* which elaborates the "Proposals" made public a year ago. The modified Charter is to be approved at the World Trade Conference which is

*Typical Commodities Affected by Reciprocal Trade Agreements**

Abrasives	Leather products
Agricultural machinery	Linens
Aluminum	Linoleum
Automobiles	Malt products
Boxes	Meat and poultry
Bulbs	Medicinals
Butter	Milk and cream
Carpets	Nuts
Cattle	Papers
Cement	Petroleum
Cigars & Cigarettes	Photographic Goods
Clay	Pig Iron
Cloth	Plastics
Coal	Potatoes
Coffee & Tea	Pulpwood
Cottonseed oil	Radios
Cotton yarn	Railway equipment
Dyeing & tanning materials	Rubber goods
Eggs	Seeds
Engines	Soaps
Explosives	Spices
Fertilizers	Sporting goods
Fish	Starch
Fooders and feeds	Structural steel shapes
Fruits	Sugar
Glass	Timber
Grains	Tires
Hides and Skins	Tobacco
Household Appliances	Toys
Industrial Chemicals	Vegetables
Iron Ore	Wearing Apparel
Jewelry	Whiskeys
Lard	Wines

*A partial list.

to meet in the United States early next year. Now among other decisions of the Preparatory Committee in London was that of calling another conference, at Geneva, next Spring which would discuss tariff reductions "on the mutually advantageous basis" and product by product.

Since our State Department is preparing the reciprocal trade-agreement negotiations either for next April or May, it seems that there will be *two conferences* dealing with the tariff reductions, one in Geneva and one in Washington. Here is a question. Why two conferences? Why have the same thing discussed in two places at almost the same time? There seems to be a good deal of speculation about this, especially in Europe, where the opinion is held that the Washington conference should follow the Geneva meeting.

Why Two Conferences?

There will be, of course, some differences between the two conferences. In Geneva, tariff reductions will be discussed in general, and at any country's initiative. Countries will, so to speak, sound out each other on the subject, and probably not much of a concrete nature will be accomplished. In Washington, there will be certain definite proposals made, based on investigations and hearings in this country, and the chances are that definite results will be shown.

It is interesting to read European comments as to why Washington is not waiting for the outcome of tariff reduction talks in Geneva. The British view is that the present Administration is anxious to push Hull's liberal tariff policies before the reciprocal Tariff Agreements Act expires in 1948. The chances are, of course, that the Republican Congress will be less courageous about tariff reduction policies and more hesitant about the Reciprocal Tariff Agreements Act. It is also interesting that the Administration waited with the announcement of the tariff talks until after the elections. Was it because of a fear that its tariff policy would become an election issue?

Nature of Tariff Revisions

Considerable preparatory work will have to be done beforehand. In the United States, the views of all interested parties, which include the producers, labor unions, and consumers, will have to be heard. The list of the commodities and the products on which tariff concessions are to be considered is far too formidable to be published in these pages. It includes some 1,800 major commodity groups, and with related products runs into several thousand items. The list fills an 82 page booklet, which, the readers who are interested, may obtain from the Department of Commerce or its field offices. (Publication 2672 of the Department of State, Commercial Policy Series 96, "Products on which Possible Tariff Concessions will be Considered in Reciprocal Trade Agreement Negotiations"). We also recommend a supplemental publication of the Department of Commerce, called "Statistical Classification of Imports into the United States, September 1, 1946 edition." This 165 page booklet gives the official classification of imports, the rate of duty in the 1930 Tariff Act, and all subsequent reductions enacted under various reciprocal trade agreements.

All written information and views and all applications for oral presentation of views regarding the commodities and products subject to the coming trade agreement negotiations must be submitted to the Committee for Reciprocity Information (Tariff

Companies with Large Foreign Sales Volume

Allis Chalmers	International Business Machines
American Locomotive	International Harvester
Bethlehem Steel	Lima Locomotive
Bliss, E. W.	Niles-Bement-Pond
Borden Co.	Oliver Corp.
Bucyrus Erie	Outboard Marine and Mfg.
Bullard Co.	Pittsburgh Consolidation Coal
Carnation Co.	Socony-Vacuum Oil
Chicago Pneumatic Tool	Standard Oil of New Jersey
Chrysler	Texas Gulf Sulphur
Climax Molybdenum	Underwood Corp.
Ex-Cell-O	Union Carbide & Carbon
Foster Wheeler	United Carbon
Freeport Sulphur	United Shoe Machinery
General Electric	Van Norman
General Motors	Van Raalte
Hercules Powder	Warner & Swasey
Ingersoll Rand	Westinghouse Air Brake

Commission Building in Washington) not later than Saturday, December 21, 1946. The first hearings are to be held on January 13, 1947. The countries with which the trade agreements are to be negotiated, include: Australia, Belgium, Brazil, Canada, Chile, China, Cuba, Czechoslovakia, France, India, Syria-Lebanon, Luxemburg, the Netherlands, New Zealand, Norway, South Africa, Russia and Great Britain. All the countries, exclusive of Russia, have already accepted.

The negotiations, when they get under way next Spring, will be the first attempt on the part of the United States at assembling a group of nations for discussion of reciprocal trade agreements. In the past, such discussions were always carried on with one nation at a time. Also the conference will be the first attempt to enter into reciprocal trade agreement with a British country other than Great Britain or Canada, and for this reason it may mark the first step toward at least a partial reducing of the imperial tariff preferences.

There is no doubt that the coming negotiations are extremely important not only to the exporter and the importer, but to any American businessmen, and will bear close watching. But the White House statement that "the success or failure of the negotiations will determine whether the world will move toward a system of liberal international trade, free from arbitrary barriers, excessive tariffs and discriminations, or will pay the heavy costs of narrow economic nationalism", while basically true, is likely to result either in undue optimism or undue pessimism about the outcome of the negotiations. The truth is that it would be premature to expect any far-reaching tariff reductions at this stage of world reconstruction. Even if tariffs should be reduced substantially, international trade will still be far from being free. Most of the countries that have been through the war—including Great Britain—will have to continue to channel their trade by quotas, government purchases, and other restrictive means. This is because they are still too desperately short of dollars and other "hard" currencies to permit dollars to be used for any but the most urgent requirements.

Similarly, if no great progress is made in the reduction of tariffs, it does not mean that we should give up or that the world has adopted permanently bilateral trading, trade blocks, international cartels, and other forms of trade discrimination. Many countries are still in the midst of a "war emergency", and it may be too early to ask them to discontinue various defensive measures, with the International Bank and the International Monetary Fund still not operating fully.

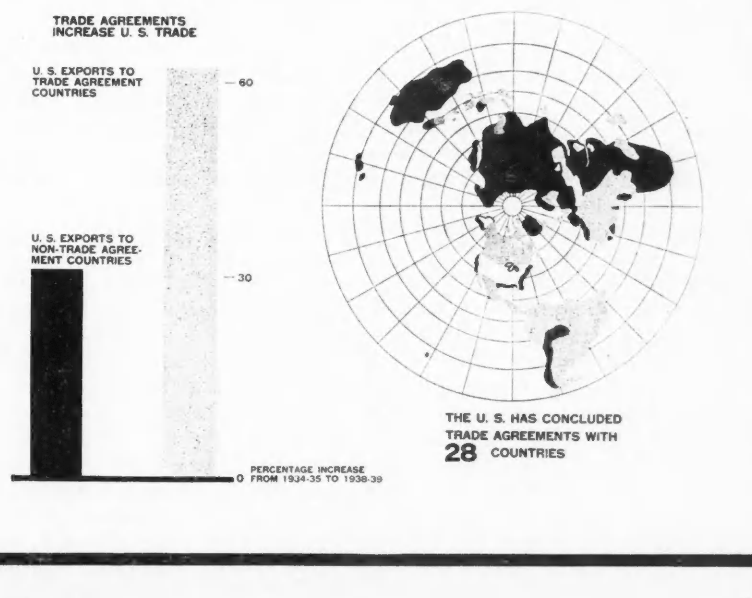
This may not be a very popular statement, but whether the tariff reduction talks are a success or a failure will depend to a large extent on exactly how courageous our tariff policy is. To put it another way, the outcome of the talks will depend on how much *more extensive* our concessions are in contrast with the concessions given by our countries. Unpopular as may be the (*Please turn to page* 277)

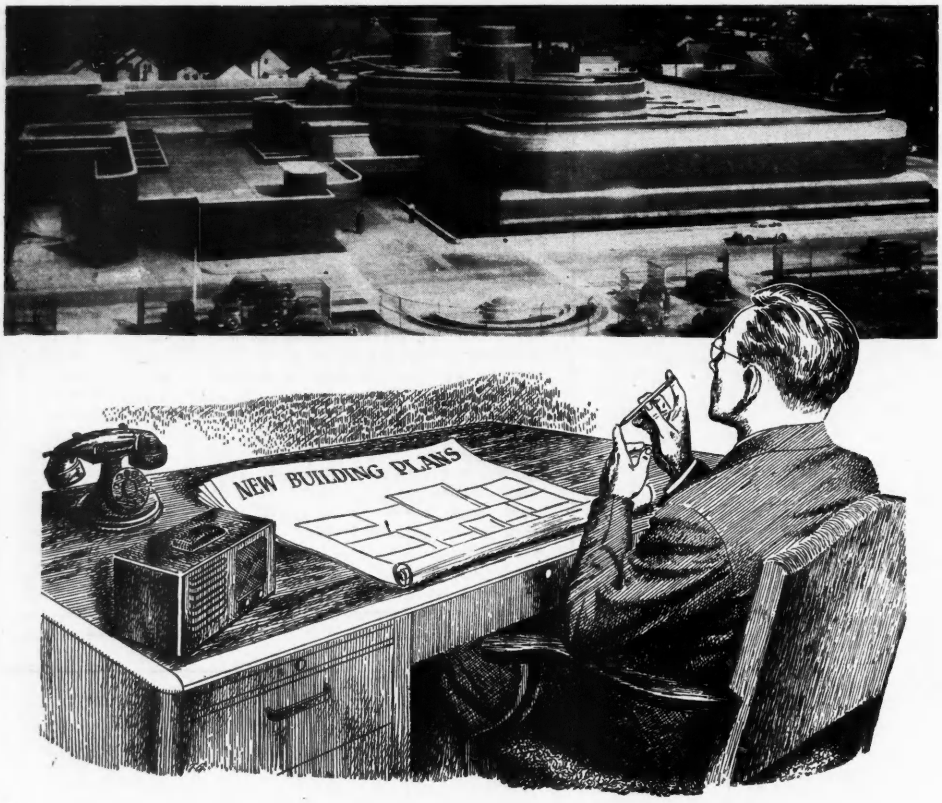
Commodities Exported in Increasing Volume

	—in $ million— 1936-38 Monthly Averages	July 1946
Agricultural Mach'y & Parts	$5.4	$14.1
Automobiles and Parts	23.8	51.4(a)
Chemicals and Related Products	10.5	40.4
Coal	4.7	41.8(a)
Cotton, Raw	26.1	58.4(a)
Electrical Mach'y and Apparatus	8.5	24.9
Engines, Turbines, and Parts	1.2	23.2
Industrial Machinery	18.6	74.4
Iron & Steel-Mill Products (except scrap)	12.4	35.3
Medicinals & Pharmaceuticals	1.4	12.3
Metals & Mfrs. (except mach'y & vehicles)	30.5	57.1
Paper & Mfrs.	2.2	9.3(a)
Petroleum & Products	28.7	35.8
Plastic Materials	.5	2.8
Radio Apparatus	2.3	5.0
Scientific & Professional Instruments, etc.	.9	5.1
Steam Locomotives	.1	16.2
Textile Fibers & Mfrs.	34.1	103.2
Wheat	3.3	35.8(a)
Wheat Flour	1.8	14.9(a)

(a) August, 1946.
Source: Foreign Commerce Weekly, Oct. 19, 1946 and Nov. 16, 1946.

RECIPROCAL TRADE AGREEMENTS INCREASE U. S. TRADE





MODERNIZATION

—A Solution to Our Cost-Price Problem?

By WARD GATES

WE ARE ENTERING an era in industrial history in which the accent will as, never before, be on maximum efficiency. In a sense, it will be a new phase in the cycle of industrial revolution which was started some two centuries ago. Now, however, it takes on added meaning, for it has military as well as economic significance, since national survival in this postwar world depends largely upon it technical and industrial efficiency.

Germany's experience in the late war emphasizes this point only too clearly, for here was a nation whose technological leadership gave her a distinct edge over her adversaries in the early stage of the war, but when American industry was finally mobilized to its full fighting potential, the doom of Nazi Germany was already sealed. In a very literal sense, therefore, American industry, as well as American arms, was the deciding factor in winning the war.

With the advent of atomic energy, the importance of industrial supremacy was still further heightened, for not only is this a requisite for military purposes, but for preparing for the various peacetime uses to which atomic power will eventually be applied. The latter, of course, is still some distance in the future as a practical science, but it is something that must be taken into calculation in evaluating coming trends.

Of more immediate importance is the need for maintaining — and further improving — our over-all industrial capacity and efficiency, for international commercial competition, will become increasingly keen as time goes on. However, a new element has been injected into this trade and industrial rivalry among nations, in that a struggle between opposing philosophies, as well as among individual countries is involved. From the beginning of "modern" European history, and especially from the sixteenth century onward, the leading nations of Europe were keen rivals for world commerce, but each was essentially capitalist, in the sense of adhering to the profit motive. Though the commerce of that day was hedged about by numerous restrictions, it nevertheless had latitude of action, and it was from these origins that modern "free enterprise" developed.

But now the world faces a growing battle between free enterprise, as we now understand that term, and state-controlled economies, which greatly complicates the new industrial competition. The two operate on diametrically opposing principles, and by vastly different sets of rules, but each will concentrate upon industrial efficiency to win its battle. Soviet Russia, having failed to achieve its full goals in its series of pre-war "five year plans" is now embarking upon a still more ambitious program, which will emphasize the heavy goods industries, and the military potential that this implies, at the expense of consumer goods for its people.

And, in doing so, it is not only marshaling its own productive capacity, but is reaching outside its own borders and reorganizing the economies of neighboring states as well. This explains the stripping of industrial equipment from eastern Germany, Poland,

the Balkans and Manchuria. To implement its program still further, the U.S.S.R. is controlling the economic life of its border satelittes—Finland, Poland, Bulgaria, Rumania, Austria, Hungary. Almost the same result is being achieved through its new trade treaty with Sweden, whereby the latter country is obliged to reorient much of its trade away from the western nations to favor the Soviet Union. This reshuffling of the European economic picture will eventually give Russia a great industrial advantage, probably far greater than that achieved by Nazi Germany at its peak, for there, too, the economies of neighboring states were reorganized around that of the Third Reich.

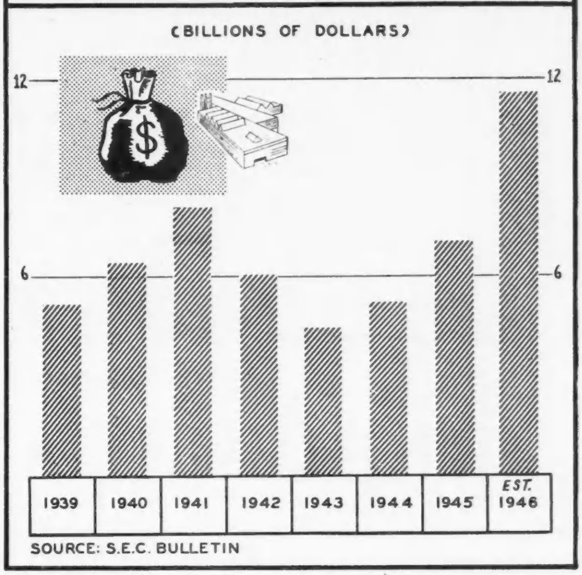
International Competition

As has been previously pointed out industrial competition will be on the increase among the western nations, too. Traditionally, the three leading contenders industrially, were the United States, Great Britain and Germany, but with the virtual elmination of the latter country from the industrial scene, trade rivalry for the heavy goods markets of the world will be chiefly between the United States and Great Britain. In fact, the economic ruin of Germany only intensifies Britain's problems, as that nation had accounted for a large share of British export trade prior to the war. To compensate for this loss, the British will have to push still more vigorously in world markets, thus intensifying the competition with the United States. In order to achieve this end, her industrial structure will require substantial improvement, and such change is in progress at the present time. The British remember only too keenly their experience following World War I, when their plant and equipment were allowed to become obsolete and declining in efficiency, placing her at a grave disadvantage with the United States and Germany. "Modernization" is now the keynote in Britain, and the campaign is being undertaken with the grim realization that upon its outcome the nation's economic survival depends.

A Solution Needed

It may well be that this feverish drive to rebuild plant and equipment overseas has pertinent lessons for the United States. At first glance, the connection may not seem very evident, especially since we emerged from the late war with the greatest industrial potential the world has ever seen, having added some $25 billion in new manufacturing facilities in the war and immediate pre-war period, most of it in the form of ultra-modern plant and machinery of very high efficiency. But while this war-developed capacity has enlarged our over-all ability to produce, it does not necessarily give us a permanent edge over our competitors abroad. For one thing, a substantial part of the new facilities is being disposed of, or is otherwise not in use. Moreover, insofar as our *pre-war equipment* is concerned, the fact is that much of this is outmoded and decreasing in efficiency. This is true not only with respect to factories and other plant buildings, but with respect to the machinery and equipment contained therein.

CORPORATE EXPENDITURES FOR NEW PLANT & EQUIPMENT



The problem thus presented is not an easy one to solve, for such facilities are private property and the solution must necessarily take this fact into account. The situation is far different than it would be under a totalitarian state, where decisions on plant modernization are made at the top level. Under free enterprise, if a factory owner wishes to get along with obsolete or inefficient equipment—and many of them seem to prefer to do so—that is strictly his business. But such (*Please turn to page* 279)

Pertinent Figures on Capital Investment of Principal Industries

	Capital Invested ($ Millions)	Rate of Return (%)	Net Capital Per Wage Earner Employed ($)
Chemicals, etc.	1,972	4.96	19,345
Food, Liquor, Tobacco, etc.	8.525	7.57	8,488
Leather Products	822	7.18	2,318
Lumber & Wood Products	2,176	6.34	2,617
Metal Products	31,586	7.86	5,652
Paper, Pulp & Products	2,047	6.89	6,582
Printing and Publishing	2,035	5.07	6,648
Rubber Products	1,168	5.05	7,582
Stone, Clay & Glass Prod.	1,750	7.31	4,928
Textiles	5,030	8.03	2,425
Miscellaneous	1,874	7.84	5,495
Total	70,987	7.04	5,847

Source: N.I.C.B. Economic Almanac.

What Business Can Expect From . . .

REPUBLICAN CONGRESS

By E. K. T.
Washington Correspondent

THE INVESTOR WHO, in the final analysis, oils the wheels of industry and makes the national economy tick, is about to get "a run for his money."

The November election was not merely a shift in party control; it was a political revolution. None know better than do the Democratic leaders that the electorate's about-face was a command to Congress, and they're being realistic about it. That means (and this is important at this stage of national life) that the Democrats must match, or better, the Republican program with accent on a swing to the right if they are to hold on to any hope for political recovery in 1948.

The Wallaces, the Peppers and others of their ilk are calling for unity in "the forces of progressivism" to win the Presidency, but politics-wise elder statesmen of the party saw the largest segment of those forces—the CIO-PAC—take a walk last Election Day and they have no intention of rebuilding on shifting sands. Actually, labor unions did not concentrate their strength behind Republicans, but by staying away from the polls they accomplished much the same result.

It is a mistake on the part of investors, business and industry to assume that there will be an abrupt change in government-business relations come next January. The irritations, and the costs of the past decade have legislative base, and laws are not junked or amended overnight. Appropriations already made carry to July 1, 1947. The departments and commissions can pursue the even tenor of their way until then, uninterrupted by any wish expressed by Capitol Hill. The Democrats remain, for two years, in control of the White House and of the entire executive branch of government. The first six months of the new Congress, therefore, will be made up of days of embarrassment for the GOP because the public will want action, not explanation and the lawmakers will be able to offer little of the former but much of the latter.

With price and production controls off, business still will be under a continuing surveillance from Washington. Permanent laws will regulate business although their scope will be narrowed by the loss of rules of wartime origin. It can be put down as a certainty that government agencies charged with enforcing such statutes as the Sherman and Clayton antitrust laws, the Robinson-Patman price discrimination law, the Fair Labor Standards Act, the National Labor Relations Act, the Webb-Pomerene Export Trade Act, and many others, will step up their enforcement activities. Proof of that statement will be found in current news items on recent suits and announced proceedings by the Department of Justice (antitrust), and in reports of renewed regulatory actions by the Federal Trade Commission (industry-wide fair trade codes), Department of Labor (fair labor standards), Department of Commerce (patent laws, increasing efforts to protect small business), and other departments and agencies.

Kept within the confines of statutory direction all this is fine and will be applauded by industry and business. But it is history that ideologies of the enforcers have played too important a part.

Sifting of campaign issues leaves two major items standing out in point of importance: 1. Taxes, balanced budget and federal economy. 2. Reformation of labor laws.

Taking these points up in order, the Republicans have publicly committed themselves to a program which only a few of their own leaders really believe is possible of accomplishment. But a serious start will be made on it, some of it will be attained, and unless businessmen expect the impossible, they will have every reason to be cheered by the results. These points make up the GOP (*Continued on page* 281)

As We Go To Press

Small business is being "protected" out of its right to forge ahead by initiative and enterprise. Murray Committee in the senate, set up to equalize opportunity between the big and the little operators throughout the country planned hearings on the economic plight of small newspapers, called it off when many replies to a questionnaire added up to "Please let us alone!"

On the house side of the capitol, the Patman Committee is looking after the interests of the small businessman but is moving more slowly. Now the War Assets Administration has sent a small business representative to each of its zone offices, has duplicated the setup with similar committees in regional offices.

Economy waves washing over official offices in Washington by no means insure the taxpayer of net reduction in his overall payments to the maintenance of government. International City Managers' Association has submitted a report indicating cities of the United States are boosting their budgets as much as 100 per cent over the pre-war peak.

Contributing causes include lessening of federal financing of local operations, municipal pay raises, expanded services in newly developed areas, increased equipment and supply costs. National Housing Administration has entered the picture to insist cities and towns must spend one billion dollars of local tax revenue by the end of 1947 for utility installations to urbanize 300 square miles of "raw" land.

And the realtors' lobby has injected a thought (which won't be harbored long by local authorities): "The principal requirement for slum clearance is a tax freeze for 20 years that will assure banks and insurance companies that their investment will not be taxed out of existence within the period of amortization." Loss of local taxes, it is claimed, would be more than offset by savings in social costs, reduction of inspection of fire hazards, and improved welfare of low income group.

Farm Credit Administration has set up "buyer caution and sound lending" as guideposts which can hold the farm land market in line next year. Studies show farm speculation is on the increase, but still relatively unimportant. More than two-thirds of the recorded purchases are by farmers who intend to operate the land. More than one half the sales in a sampling survey were all cash transactions.

Decision of insurance companies to go into the field of industrial plant purchase may have major repercussions. Prudential Life Insurance Company plans to move soon in the 25 states where legislation permits that type of investment by insurance companies. Company officials predict industries will be lured over border lines into states that allow such purchases.

Administration fiscal experts are working feverishly to get a program ready for announcement before New Year's, to take the edge off the Republican draft keynoted on economy. Reduction of the present budget will be claimed by both parties, fact of the matter is that much of the cut will come automatically anyway.

Slashed budget will result from elimination of non-recurring items such as the British loan, appropriations for UNRRA, Export-Import Bank funds, subsidies, terminal leave, and the overall contraction of the armed forces and wartime government agencies. These items alone total more than 10 billion dollars.

Farm commodity program of the Republican party is rapidly taking shape. Safe to predict is that it will include soil conservation program, rural electrification, expanded research and marketing studies, parity that will include farm labor costs but also emphasize the relationship to present-day cost of productions, not hoary statistics.

Budgetary problems of the United Nations are worrying the diplomats more than the federal financiers. UN spent 19.6 million dollars last year, will need about 24 millions this year and the United States is expected to pay half. That wouldn't be a noticeable drain upon the Treasury but the international experts, including Vandenberg, think it's unwise for any single nation to take responsibility for preserving the organization in a financial way.

Not to be caught in the act of passing up an opportunity to register objection, Russia complains UN is spending too much money even though little of it comes from the Soviet. The protest is regarded as more accurately reflecting Moscow's attitude toward the organization than appraising its money needs.

Collapse of OPA was the principal motivation for dropping the Federal Reserve Board's Regulation W installment credit curbs. Realized by the Board was the fact that consumer credit control is a feeble instrument with which to fight inflation. It could be employed effectively to bolster price controls but it lost most of its usefulness when those controls disappeared.

Another influencing factor was the Republican victory. The political complexion of the incoming congress and the known attitudes of the GOP fiscal key men dashes all hope that consumer credit control would be placed on a permanent basis. It was emergency legislation in its inception and it will go in the general exodus of wartime acts.

CIO has compounded the opinions of three of its favorite men in public life — Jack Kroll, national director of the CIO-PAC, Henry A. Wallace, and Senator Claude Pepper — and has produced what, if nothing else, is a masterpiece of brevity in analysis of the congressional elections.

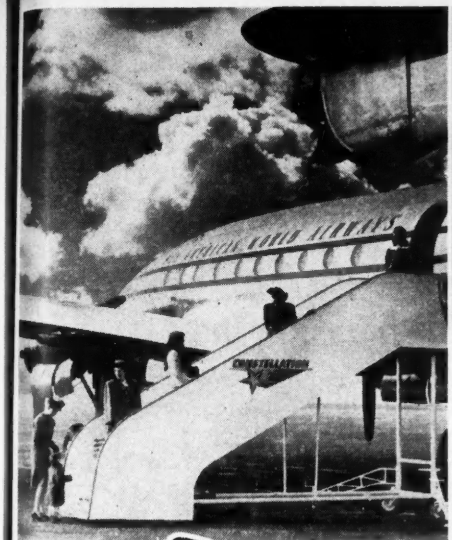
This is it: "All three agreed that the progressive forces suffered a setback in the November elections. All agreed that workers, liberals and independent voters must work unitedly to prevent another defeat in 1948. And all agreed that the Democratic party had contributed to its own loss of congress by weak leadership and failure to carry out the militant program of Franklin Roosevelt."

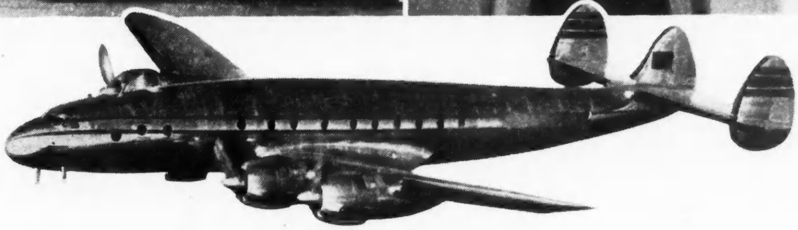
Rep. Joseph W. Martin didn't do too well in his first press conference since he was cast in the role of Speaker-elect. Usually as conservative in his public utterances as in his political policies, he discussed taxes and government economies in a manner which even his intimates had to admit hinted lack of serious thought.

Martin not only supported the Knutson program for a 20 per cent tax cut, but said he favored such a slash "across the board." That, of course, would include excises which Knutson and campaign headquarters of the GOP hadn't in mind at all. The most productive excises are certain to remain.

And Martin called for a cut in taxes first, then reduction of outlays — the very reverse of sound budgetary practice. No searching study has been made to determine how much departmental budgets can be cut. Until that is known, congress cannot scientifically decide how much tax revenue will be needed to run the government.

If registrations are a criterion to be taken seriously there aren't many lobbyists working to put over their pet theories or protect the interests of their principals. Although the deadline for disclosure to congress has passed, only 189 persons have come forward to admit their function is "to influence legislation."





World travel on giant aircraft now competes with all other carriers.

Down To Earth Analysis Of . . .
The AIRLINES

By W. C. HANSON

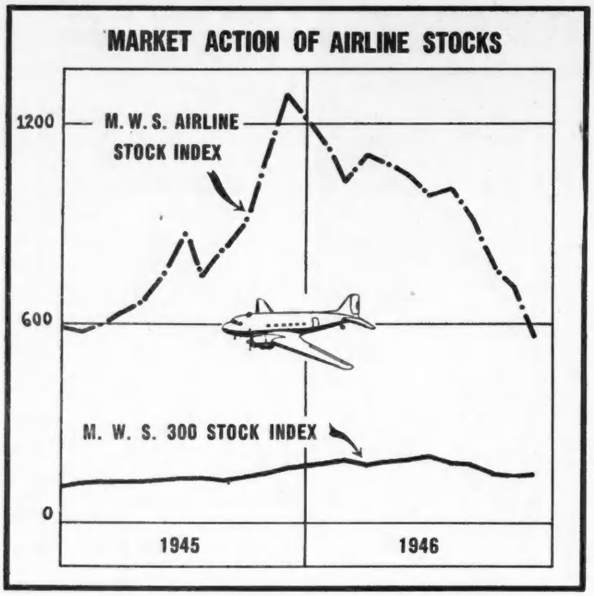
PESSIMISM has become the dominant sentiment on the airlines of late, replacing the mercurial optimism which had formerly prevailed for some four years. Shortly after our entry into the war stocks of air transport operators began an aggressive climb, based primarily on the premise of future growth and unprecedented prosperity. The actual ending of the war saw a still further spurt in the airline stocks on the theory that the long-awaited postwar upsurge in air operations would promptly come to pass.

But while eventual growth prospects for the air transport systems are still as promising as ever, the more immediate trends have dampered the ardor of the erstwhile enthusiasts, and stocks of this group have been declining. It is noteworthy, incidentally, that airlines stocks reached their peak, and began to decline toward the close of 1945, or some six months ahead of the rest of the market. The extent to which the decline has thus far extended can be better appreciated from the accompanying table which shows that shares of leading airlines are now selling from about one half to less than one-third of their 1945 highs—a rather drastic correction percentage - wise.

The prevailing misgivings on the intermediate future of the air operators are based upon factors such as have been repeatedly expressed in these columns heretofore, and discussed in some detail in our analysis of June 8, which indicated that narrowing profit margins were the chief concern in this industry, owing to rising labor costs, the expenses attendant on recent expansion, and the inability of the industry to pass on the rising unit costs in terms of unit sales prices, or fares. The situation may be summed up by saying that the airlines are experiencing growing pains, and the cost burden which accompanies a period of rapid expansion. Eventually, the latter will be reflected in greatly augmented earning power, but before this is realized, an interval of perhaps six more months or so of dubious profit margins must be anticipated.

All of which raises the question of the fundamental factors underlying this industry, for it is upon these fundamentals that its future is based. Broadly viewed, United States airlines operators comprise three general groups: the international systems, the purely domestic lines, and the myriad group of small operators, such as feeder lines, cargo carriers, and non-scheduled fliers. Although the industry is generally thought of as a homogeneous unit, actually, each of these subdivisions is affected by different circumstances.

The rise of the international systems is of particular interest, for it has both economic and political implications. This subdivision is now the most important in the entire American-owned airlines industry, for virtually all the larger carriers have become, or are becoming, international in scope. Pan American has long been the traditional and sole example of the international airline, but its dominant role in the foreign field is being challenged by the expansion of various U.S. operators into the foreign field, and by the rise of aggressive competition from air systems of other nations, of which more will be said



later.

The list of domestic operators branching into overseas routes is impressive. American received an early start with its Mexico City and transatlantic routes early in the war, and is now one of the fore most contenders for international air traffic. Braniff has newly acquired routes to Mexico and South America, while Chicago & Southern has franchises to Jamaica, the Netherlands West Indies and Venezuela. Eastern has branched out to Mexico City and Puerto Rico, and National Airlines to Havana.

Northwest Airlines' overseas program is interesting, as it has been awarded routes to China and Japan via Alaska, and to Manila, which, with its link with TWA in China, gives it interesting potentialities for future Oriental air traffic. TWA, already a transatlantic carrier, has recently been granted routes to Shanghai through India. United has added a new San Francisco—Hawaii route, while Western Airlines is another instance of route extension to Mexico City.

But while our leading domestic air systems are rapidly acquiring international status, this is of greater importance from long range rather than an immediate earnings significance. The international air transportation market is becoming increasingly competitive, not only among the various American-owned systems, but with the rise of aggressive foreign operators as well. Various foreign nations are making a bold bid for world traffic, and are being backed by their respective governments via subsidies and other encouragements. The situation in this respect is analagous to the stiff international rivalry which used to prevail and to some extent still prevails among the major shipping nations for the lucrative North Atlantic trade.

Since the end of the war, the British, French, Dutch, Scandinavians, and Belgians have been aggressively staking out their claims for a share in the North Atlantic routes. Names like Air France, Sabena (Belgian), Scandinavian Air Lines, KLM (Netherlands) etc. have been appearing with greater frequency in the news, and will become still more prominent as time goes on.

In evaluating the future of international air traffic, due consideration must be given to the network of agreements among the various nations. The essential framework for governing international aviation relations was set up at Montreal last year, and approved by 30 nations. The Provisional International Civil Organization thus created provides for an assembly in which all signatory powers would be represented, and an elected council of 20 member nations who would serve for two-year terms. The new organization has advisory and technical functions, but without power to regulate the economic phases of air transport.

In addition to this rather general convention among the aviation nations of the world are specific agreements among the nations individually. These are not treaties, per se, but they evidently have the force and binding effect of treaties. One of the most important of such covenants is that executed between the United States and Great Britain as a result of the Bermuda conference earlier this year. The essential points of the Anglo-American pact are the regulation of fares, removal of restrictions on the number of flights by the airlines of the signatory nations, and the setting up of future international routes. *One of the most significant provisions of the agreement is the right of "pick-up", which has far-reaching competitive repercussions.* According to this agreement, a British airliner could land in New York, or any other American airport, in the normal function of its operations, and pick up new passengers bound for a third country. Similarly, an American

Measuring the De,ıation in Airline Equities From Their 1945-1946 Highs

	1940 Price Range*	All time High—Year*	1946 High	Recent Price*
American Airlines	7½- 4⅛	19⅞—1946	....	9½
Braniff Airways	7½-33¾	37½—1945	34⅝	14
Eastern Airlines	11 - 6½	33½—1945	31⅛	19
National Airlines	9¾- 3½	41¾—1945	34⅞	15
Northwest Airlines	14 - 7½(a)	63½—1945	56½	20
Pan-American Airways	12¾- 6	29 —1945	27	12½
Penn-Central Airlines	22¾-11⅛	49¾—1945	45¾	16
TWA	21⅞-10¼	79 —1945	71	24
United Airlines	23¾-12	62½—1945	54¼	21
Western Airlines	7⅞- 3½	40½—1945	35	11½

* Adjusted to reflect stock dividends and split-ups. (a) 1941.

operator serving British airports, could take on fares for a third nation. Similar agreements have been effected between this country and France, and other nations, and more such covenants are expected in the future.

International Rules

This was an unexpectedly liberal interpretation of the so-called "Fifth Freedom" . . . "freedom of the air," . . . and has provoked a storm of protest, especially from the American side of the ocean. The underlying fear, of course, is that foreign operators, aided by lower costs and governmental subsidies, would be able to make heavy inroads into the American share of overseas traffic.

Another noteworthy feature of the agreement is the barring of rate "wars", as rate determination will be worked out by the representatives of the signatory nations. This bears a close resemblance to the rate-maintaining features of the North Atlantic Conference covering international shipping.

Speaking of competition for the international air commerce, not all such rivalry is among aviation lines. The element of steamship competition must be reckoned with. While it is obvious that the airplane is going to take away huge segments of the luxury passenger trade of the ship lines, the latter are by no means to be counted out of the race. The resumption of normal steamship operations, addition of fast, economical ships, and less urgency for quick transatlantic crossings than during the war, are being mirrored in a sharp drop in transoceanic air passenger travel. As a result, Pan American has recently reduced its staff in the Atlantic division by about 20%, and the other transatlantic air services are also feeling the pinch.

Temporary Traffic Lag

The outlook for international air traffic may be summed up by saying that it is now entering its real, postwar competitive stage, now that the war-induced record traffic has fallen off. Eventual growth prospects are enormous, but the keen rivalry referred to will limit unit profits for some time to come. Especially is this true now that foreign operators can compete more directly with American owned lines through provisions of the international agreements.

Turning to the domestic scene, the chief elements at work are the squeeze on profit margins, close to or, in some cases, below, break even points. As already mentioned, this is mainly attributable to rising operating costs and the heavy expansion programs of the major lines, the expense of the latter constituting a present drain on finances which will not be compensated for some time to come in the form of increased revenues.

This, in turn, raises the question of airlines' financial positions at the present time, for the answer thereto has an important bearing on the future status of equities in this industry. To appreciate fully the present situation and its future implications, it is necessary to look back a little to financial developments over the past year or two.

Long before the end of the war, the airlines operators were making (*Continued on page* 273)

Airlines' Financial Resources Compared with New Equipment Commitments

Airline	Current Assets	Current Liabilities	Net Working Capital	Long-Term Debt	New Equipment Orders
	—Millions of Dollars—				
American	$78.5	$20.4	$58.1	$40.1	$91.0
Braniff	7.2	3.6	3.6	....	11.4
Eastern	24.3	10.1	14.2*	....	16.0
National	2.6	1.7	.9**	1.9	6.2
Northwest	5.2	3.9	1.3	....	25.0
Penn-Central	6.8	4.9	1.9	10.0	12.5
TWA	24.6	14.9	9.7	28.9	40.0
United	27.9	15.1	12.8	....	44.0
Western	2.8	4.9	def.2.1	.1	6.0

* Working capital reported to approximate $19 million at present.
** Company has subsequently raised $3.7 million through stock.

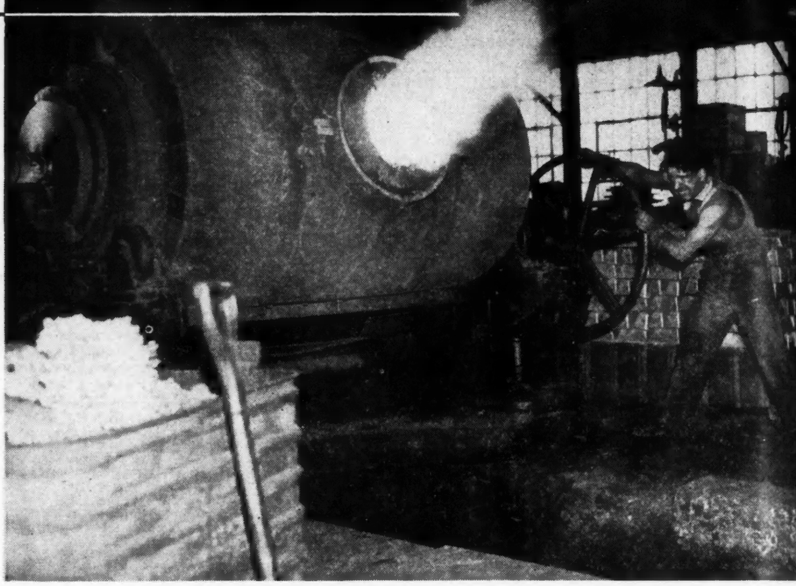
Pertinent Financial Statistics of Leading Airlines

	Passenger Load Factor 6 mos. ended June 30		Revenues (000 omitted) Passengers		Revenues (000 omitted) Freight & Mail		Net Per Share		Dividends Per Share		Price-Earnings Ratio	Current Ratio*
	1945	1946	Fiscal Year 1945	12 mos. ended June 30, 1946	Fiscal Year 1945	12 mos. ended June 30, 1946	Fiscal Year 1945	6 mos. ended June 30, 1946	1945	1946		
American Airlines	89.5%	86.4%	$37,317	$45,034	$10,098	$7,989	$.67	$.003Se9	$.20	Nil	14.2	2.9
Braniff Airways	87.8	87.2	6,938	8,004	981	882	.85	def.09	.60	.45	16.5	2.0
Eastern Airlines	87.1	85.9	23,000	28,313	3,670	3,559	.89	.77	.25	.50	21.4	2.3
National Airlines	90.6	84.6	2,780	5,164	452	669	.34	.38(b)	Nil	20% Stock (a)	39.5	1.6
Northwestern Airlines	86.1	87.5	7,972	13,371	2,825	2,922	1.35	1.82(b)	.50	.50	11.0	1.1
Pan-American Airways	......	......	39,899	....	29,407	....	1.23	......	.25	.50	10.2	2.1
Penn-Central Airlines	78.3	77.6	9,898	13,069	1,081	1,072	.93	def1.57	.25	Nil	17.2	2.3
Transcon. & Western Airlines	89.9	86.9	24,182	31,409	9,269	7,939	1.84	def1.63	Nil	Nil	13.0	1.6
United Airlines	95.4	86.4	27,437	35,541	11,780	9,627	2.33	.42	.50	.50	9.0	1.9
Western Airlines	86.4	78.9	5,653	6,353	1,445	822	.51	def1.72	Nil	Nil	22.5	1.4

* Computed from latest available balance sheet. Se9—For 9 mos. ended September 30.
(a) Payable January 15, 1947, x Divid. Dec. 27. (b) For fiscal year ended June 30, 1946.

What About NON-FERROUS METALS—Now?

By GEORGE L. MERTON



Upon a full supply of copper, aluminum, lead, zinc and other non-ferrous metals, fabricators lean heavily to function.

SO MANY THINGS have happened in recent weeks to change conditions for the producers of copper, aluminum, lead and zinc that it appears timely to assemble the facts in order to appraise their combined influence upon this industry. As many of these developments have been on the bright side, shareholders in some of the larger concerns have been surprised that an improvement in fundamentals has not been better reflected on the Stock Market than has been the case. The best answer to these may be to point out that in a critical period such as the present, prices for shares sometimes carry less relationship to basic factors than perhaps they should, at least when it comes to assessing the potentials for any individual industry. In due course, unless the economy becomes seriously upset, selectivity may come more heavily into play, especially if the prospective earnings of the miners in this group live up to expectations. In this event patient shareholders could perhaps win out on the score of price.

Developments during the first half of 1946 were highly discouraging to all producers of non-ferrous metals. For weeks and months, strikes seriously interrupted operations, and at just a period when the miners were struggling to overcome a wartime shortage of labor. As a result, production of domestic copper, for example, came to only around 500,000 short tons during the first ten months of the current year, compared with 713,000 tons in the same period of 1945. Deliveries of the red metal to consumers, although bolstered to the extent of 553,000 tons from the Government stockpile, have totalled only 991,000 tons during this interval, against nearly 1.3 million tons last year. With volume reduced and with prices rigidly held down to 12 cents per pound by OPA, it was not surprising that even when the price, including premiums, was raised to the 14⅜ cents level, mounting costs still cut heavily into profits. Six months net earnings for all the larger miners dipped considerably below those of the corresponding 1945 period. Fact was that only a portion of tonnage produced was at all profitable, because of the cost-price squeeze forced upon them. This despite the continued premium payments accorded high cost producers by the Government.

Within three days after President Truman ordered decontrol of prices on November 9, copper prices advanced to 17½ cents, bringing them closely in line with world prices, and the British Minstry of Supply immediately established a boost of 2½ cents per pound at its end to equalize the situation. But shortly thereafter, the Government announced that upon termination of presently outstanding contracts the Metals Reserve Corporation, a Federal Agency, would cease buying foreign copper. For a long time past, MRC has been buying copper from abroad at 17½ cents per pound on a basis of import duty free, reselling the red metal to domestic consumers at 14⅝ cents per pound and absorbing the loss. While this latest step signifies that American users will henceforth be permited to buy foreign copper direct, it is equally true that they will have to pay the four cents import duty, thus as a practical matter establishing a price of 21½ cents per pound for everything but metal bought from domestic consumers.

Effect of Price Increases

In recent days, one after another of the large copper mining companies, spearheaded by Phelps Dodge Copper Corporation, has again raised its price, this time to 19½ cents, an advance of 2 cents per pound. At this level, the price is the highest since the boom days of 1929, when 23.87c per pound established a record. But at that it will be noted that a spread of 2 cents per pound still exists between the price for domestic metal and that imported from abroad. Off hand it might be assumed in view of undoubted ability of the copper miners to sell all the copper they can produce at these rapidly advanced prices, that something like a bonanza is looming up for them, but upon sober appraisal this does not necessarily follow. True, in spite of the demise of OPA, the Government still plans to spend

some $2,100,000 in the form of subsidies to the copper miners. But as a measurable offset, the funds allotted are based upon the spread between cost and price, with the idea of increasing output from low grade properties which otherwise might find it difficult, if not impossible to operate. For this reason it would appear that the low cost operators stand to benefit more significantly by increased prices than their less fortunately situated competitors. On the other hand, if the newly established price levels prove to be rather stable, as all signs indicate, it may start a trend by many miners possessed of both high and low grade ore bodies to resume former policies of extracting high cost copper on a larger scale. During the war, when all-out production was the transcendent factor, many concerns concentrated upon mining rich bodies of ore which over a term of years would have been saved for exploitation at times when copper prices tended to sag heavily.

Shortages Analyzed

As for the current demand situation in the field of copper, nearly every maker of electric equipment and brass goods has been seriously hampered by the shortage of supply engendered by strikes in the mines. For months and months earlier in the year, reliance upon Government imports provided only a partial answer to the problem, and operations of the fabricators were severely curtailed. Manufacturers at the beginning of November figured that their requirements to meet unfilled orders and inventory limits came to over 830,000 tons, whereas stocks on hand plus orders placed with producers amounted to only 418,000 tons. Thus a void of about 412,000 tons still remains to restore conditions to a normal balance. On the other hand, deliveries of refined copper to consumers in October exceeded 130,000 short tons, establishing a high record since May, 1945, and unfilled orders on the books of makers of copper products were at the sizable height of 537,000 tons. From these figures it may be readily envisaged that activities all along the line in the copper industry, from mines, smelters and refineries to fabricators, are not only reaching higher and higher proportions but are likely to continue that way for a long time to come.

New Production Outlook

Now that the Government has abdicated its former role as the sole primary buyer of copper from foreign countries, it is interesting to note that at the end of October the Federal stockpile of this material had shrunk to 160,000 tons compared with 570,000 tons at the beginning of 1946. While an additional 120,000 tons still will come in on uncompleted contracts for delivery during the first quarter of 1947, to meet the urgent needs of domestic consumers may entail a further substantial shrinkage in the stockpile during coming months. Of total copper deliveries during the first ten months of 1946 about 55% were supplied by foreign concerns and 45% from domestic sources, whereas normally domestic capacity could furnish nearer 60%. Barring further work stoppages, United States miners should rationally step up production, now that restrictive Federal controls have been eliminated, and find a home market ready to take all the red metal they can offer, and at prices which should raise their earnings to a highly satisfactory level, a welcome change compared with neglible results obtained in 1946. But even in the current year, cash positions have been so strongly held, that the temporary downtrend in net has not been sufficient to threaten payment of dividends on the present scale. Looking ahead a bit, also,

Financial Survey of Principal Mining Companies

	Sales Revenues			Net Per Share		For 9 mos. ended	Dividend Per Share			Recent	Dividend
	1940	1942	9 mos. ended Sept. 30, 1946	1940	1942	Sept. 30, 1946	1940	1942	1946*	Price	Yield
Aluminum Co. of America	$52,063(a)	$124,850(a)	$89,033(a, c)	$8.91	$5.93	$2.85(c)	$2.00	$2.00	$2.00	$67	3.0%
American Metals, Ltd.	89,983	91,694	3,250(a)	2.69	1.82	.87	1.75	1.50	1.00	26	3.8
American Zinc, Lead & Smelting	14,460	24,596	18,379	.38	.85	def.02	Nil	Nil	Nil	8½	....
Anaconda Copper	243,663	408,952	31,152(a)	4.04	4.20	1.51	2.00	2.50	2.50	39	6.4
Cerro de Pasco Copper	19,790	22,641	7,930Je6	2.40	2.88	1.33(c)	4.00	4.00	2.00	34	5.7
Climax Molybdenum	12,921	24,347(a)	2,644(b)	2.40	5.31	.77	2.20	3.20	1.40	20	7.0
Eagle Picher Co.	27,994	40,272	28,497Ag9	1.41	1.37	1.25Ag9	.40	.60	1.00	22	4.5
Howe Sound	11,614	14,513	6,467	3.63	3.78	1.30	3.75	3.25	1.30	33	3.9
Inspiration Consolidated Copper	9,156	12,168	1,553(a)	1.87	1.44	.72	.50	1.00	1.00	16	6.2
International Nickel	143,703	165,595	92,653	2.31	2.15	1.24	2.00	2.00	1.60	30	5.3
Kennecott Copper	177,250	259,443	55,759Je6	4.05	4.51	.42Je6	2.75	3.00	2.50	47	5.3
Magma Copper	5,645	6,036	4,099	2.78	1.46	.77Je6	2.50	2.00	.50	19	2.6
Miami Copper	7,577	N.A.	9,402	.70	1.32	.61Je6	.45	.50	.50	13	3.8
New Jersey Zinc	N.A.	N.A.	3,984(a)	4.19	3.68	1.75	3.50	3.25	3.00	64	4.7
Phelps Dodge	79,959	132,379	49,861	1.49	1.85	def.11Je6	1.50	1.60	1.60	37	4.3
Reynolds Metals	29,158	86,068	81,607	2.10	1.07	2.94	.30	.50	.75	32	2.3
St. Joseph Lead	38,507	51,360	26,356Je6	2.62	2.89	1.41Je6	2.25	2.00	2.00	55	3.6
U.S. Smelting, Refining & Mining	39,018	41,248	25,391	8.16	6.86	.71Ag9	6.00	4.00	Nil	44	....
Vanadium Corp.	10,800	16,708	5,558Je6	2.85	1.34	def.94Je6	1.50	.25	Nil	18	....

*12 months to date. (c) For year ended Dec. 31, 1945. Je6—For 6 months ended June 30, 1946. Ag9—For 9 months ended August 31, 1946. N.A.—Not Available. def.—deficit. (a) Operating income. (b) Net before taxes.

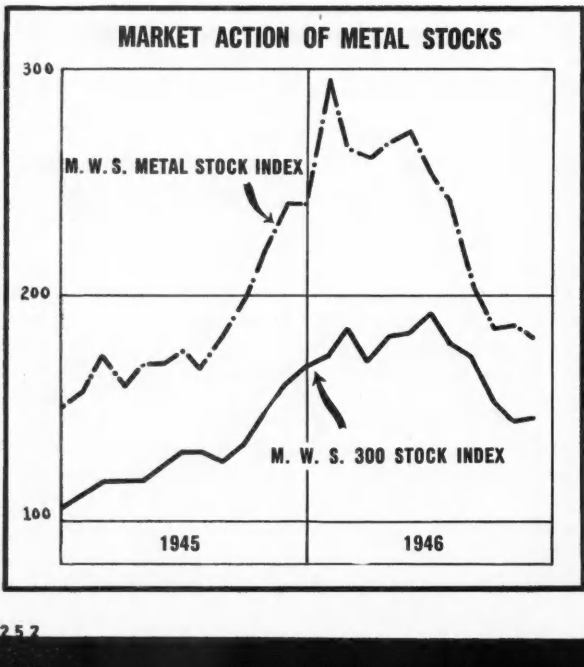
Significant Balance Sheet Items On Leading Mining Stocks

	Per Common Share				
	Book Value	Net Current Assets*	Cash Assets	Depletion & Depr'n Reserve	Current Ratio
Aluminum Co. of America	$35.91	$4.93	$18.50	$79.50	6.1
American Metals, Ltd.	47.94	16.90	19.50	20.20	2.4
Amer. Zinc, Lead & Smelting	12.85	6.60	1.29	16.45	3.9
Anaconda Copper	65.53	19.30	14.95	25.75	5.3
Cerro de Pasco Copper	47.54	14.65	11.95	51.50	9.4
Climax Molybdenum	28.37	9.20	7.42	2.10	8.3
Eagle Picher Co. (c)	21.00	12.00	8.35	30.40	6.1
Howe Sound	44.13	14.30	12.30	23.50	10.0
Inspiration Consoli. Copper.	26.31	5.25	4.68	13.60	7.9
International Nickel (b)	16.30	7.15	6.30	9.30	8.0
Kennecott Copper	39.87	20.00	17.30	13.40	8.1
Magma Copper (a)	23.40	14.60	10.01	10.80	10.5
Miami Copper	26.47	10.68	6.95	42.50	4.2
Phelps Dodge	33.15	9.55	8.80	42.00	2.8
Reynolds Metals	28.26	None	15.40	33.90	3.3
St. Joseph Lead (a)	18.85	10.10	6.90	28.00	5.2
U.S. Smelting, Refining & Mining	82,85	.29	33.00	112.00	5.2
Vanadium Corp. (a)	29.60	13.00	4.05	22.40	5.8

* After providing for senior securities. (a) Figures are as of June 30, 1946. (b) Figures are as of September 30, 1946. (c) Figures are as of May 31, 1946.

volume and profits are likely to be enhanced by reappearance of more copper scrap, now that a free hand upon prices has become a reality. Under normal conditions, scrap is a very important addition to supplies of new metal from the mines although benefitting smelters mostly. The low level of copper in the Federal stockpile, furthermore, must be viewed constructively by the miners, furthermore, in that eventually it will be rebuilt to substantial proportions, thus helping to stabilize volume for domestic producers if for any reason demand from manufacturers shoud slacken enough to warrant the diversion.

Elimination of OPA restrictions also has been beneficial to producers of lead. Problems in this branch of the mining field have been similar to those hampering the copper industry for many months past, indeed all during the war. Payment of Government subsidies held the price per pound down to 6½ cents per pound from 1942 through 1945. In June of this year the Government advanced the price to 8¼ cents as a partial offset to mounting wage costs, following prolonged strikes. Quite lately, American producers and refiners, when able to set their own sights at last, pushed the price up to first 10.½ cents and then again to 11.8 cents per pound at New York. As domestic demand for lead, chiefly for batteries and cable coverings, runs to about 1 million tons annually and American mines probably cannot turn out more than 400,000 tons in 1946, or some 15% less than in 1945, this leaves about a quarter of a million tons to be imported after allowance for perhaps 350,000 tons which may come from secondary supplies.



The Lead Situation

While producers claim that at the seemingly now high price level, net gains to them after adjustment of subsidies actually amount to little or nothing, the increased price is expected to greatly stimulate offerings of scrap, and also imports of foreign metal, particularly from Mexico. From some quarters come predictions that all in all it is more than likely that supply will now rapidly catch up with demand, and before many months pass, economic forces may come into play to ease prices somewhat. Despite all difficulties in the current year, net earnings of St. Joseph Lead Co., by far the largest producer in the country, have held up well and probably will show a slight increase for the full year compared with 1945. And during 1947, earnings of all the stronger lead miners and refiners should show further improvement. American Smelting and Refining, for instance, may now be able to sell to domestic users of lead fully half of its large Mexican stocks and at a satisfactory profit. It is estimated that shipments from this one source may run as high as 6500 tons per month, or more than the Government has been purchasing during the summer.

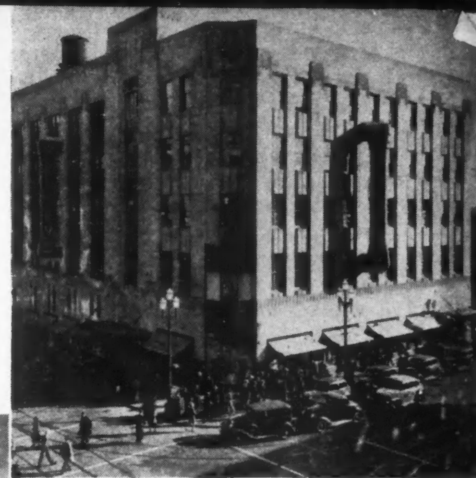
Outlook for Zinc

Miners of zinc have been somewhat more fortunate in keeping supply more nearly in balance with demand, than has been the case with producers of other non-ferrous metals, although the situation is still tight. During the first five months of 1946, total production of zinc slabs fell off only 1.6% below the same period in 1945, although refined production dropped by about 17%. Thus the spur to upping prices for this galvanizing and useful alloy metal has not been very expressive—only a cent per pound at the latest step for zinc oxide, widely used in the paint and rubber industries. Although nine months earnings of the largest zinc producer, New Jersey Zinc Co., dipped somewhat under handicaps characteristic of the industry, dividends have remained stable and prospects for better showings have now been decidedly enhanced. Anaconda and American Smelting also stand to gain through profits derived from zinc. (*Please turn to page* 275)

An Investment Audit Of . . .
J. C. PENNEY

By STANLEY DEVLIN

Photo by J. C. Penney



Customers swarm around J. C. Penney counters to buy long needed goods.

RETAIL MERCHANDISING has been a hectic, but withal a very profitable, business for the last four or five years. There simply has not been enough goods made to satisfy record-breaking consumer demand. No one cared much what things cost or how well they were made so long as it was possible to purchase reasonable facsimiles of the original desirable merchandise.

All along the entire chain of distribution the scramble for goods has intensified. From the purchasing agent for the manufacturer to the wholesaler or jobber, it has been a case of "knowing somebody." The department store buyer responsible for obtaining the most wanted supplies has experienced the same anxieties as the customer who had to stand in line to pay ridiculously high prices for scarce merchandise.

But a change is in sight. Raw materials are becoming more plentiful and customers are showing increasing discrimination in their buying attitudes. This means that the hit-or-miss methods of recent years no longer will prove as profitable as in the past. Experience in purchasing and in marketing once more will comprise an essential phase of retailing. For investors interested in shares of merchandising companies this transition is important, for it means that with the elimination of artificial controls reliance once more must be placed on demonstrated skill in management.

This is where the J. C. Penney Company shines. For a generation, this organization quietly has built up a reputation as the leader in its field. Its management is regarded as among the smartest and most aggressive distributors of staple dry goods, wearing apparel, household furnishings and similar merchandise appealing particularly to the working classes. The fundamental basis for its exceptional record is the profit-sharing policy adopted by the Penney Company founder more than forty years ago. A system of incentive compensation applicable to all important executives as well as store managers and their assistants has enabled the company to attract and hold the best merchants and to mold a strong organization of energetic, loyal and capable individuals.

The Penney Company faces the coming period of more intensive competition well siutated to retain its claim for recognition as one of the leading retailers of the nation. The management's objective in expansion had virtually been reached before the war. For future growth, the company apparently intends to rely on development of business in the approximately 1,600 stores now in operation. As in the past, greatest emphasis will be placed on stores in relatively small communities where the Penney outlet will rank as one of the principal dry goods distributors in the town. Expansion in metropolitan areas is expected to be relatively slow.

The promising outlook for this company has as its

basis the prospect of substantial sales volume, normal profit margins and a strong competitive position. The fact that its period of expansion is behind apparently gives the Penney Company advantage over competitors who contemplate extending chain outlets in the next four or five years.

The fundamental policies which have contributed to management's success in the past are expected to be reaffirmed in the forthcoming restoration of normal retail operations. Briefly, these basic rules of management may be summarized as follows: (1) *Concentration of volume on staple dry goods such as clothing, household linens, cotton goods, rugs and other furnishings,* (2) *absence of charge accounts and other credit arrangements,* (3) *lack of delivery systems* (4) *high degree of merchandising responsible for individual store managements and* (5) *avoidance so far as possible of direct ownership of stores.*

The company was started in the Northwest in 1902 and in its early years concentrated on that section of the country. Stores are more numerous in the western half of the country and locations are strongest in such growth areas as California, Texas and the Pacific northwest. Expansion was particularly active in the late 1920's and the early 1930's. Growth in the last ten years in number of stores has been rather moderate. There were 1,602 units in operation at the end of 1945 compared with 1,481 at the end of 1935.

Volume of business has expanded rapidly, however, and has more than doubled in the last ten years. The gross business for 1945 approximated $550 million compared with about $226 million for 1935. Sales this year have continued to rise and for the full year 1946 are expected to approximate $660 million. Such volume would be equivalent to about $400,000 per store, compared with an annual average of slightly more than $150,000 per store in 1935. This growth in unit distribution reflects increased merchandising efficiency.

Ten Year Record of J. C. Penney's Sales, Earnings and Dividends

	Sales ($ Million)	Net Per Share	Dividends Per Share
1927	$151.9	$1.01	$.47
1928	176.7	1.35	.56
1929	209.7	1.55	2.33
1930	192.9	.96	1.83
1931	173.7	1.04	.80
1932	155.2	.52	.70
1933	178.7	1.84	.40
1934	212.0	2.10	1.47
1935	225.9	2.03	1.25
1936	258.3	2.45	2.42
1937	275.3	2.17	1.83
1938	257.9	1.80	1.42
1939	282.1	2.16	1.67
1940	304.5	1.97	1.67
1941	377.5	2.08	1.67
1942	490.3	2.19	1.67
1943	489.9	2.17	1.67
1944	535.3	2.08	1.67
1945	549.1	2.11	1.67
1946	446.5(a)	2.17(b)	2.12

(a) 9 months ended September 30.
(b) 6 months ended June 30.

Although there has been no interruption in the steady growth in sales since 1938, it seems possible that the volume of business in the coming year may show a decline. In any event the rate of improvement may be retarded. If this should be the case, reasons might be found in the gradual decline of wholesale prices and some contraction of agricultural purchasing power. The Penney chain caters especially to rural trade. The fact that commodity prices have a strong sustaining factor in the government loan policy should prove reassuring not only for the company but for investors in shares of companies dependent on farm purchasing power.

Even if there should be a slackening in sales growth or even a temporary decline for 1947, this would not necessarily mean that earnings would be particularly adversely affected. Profit margins are influenced considerably by total volume but undoubtedly economies in operation would be instituted to counteract adverse effects of reduced sales. It is quite possible that with the return of increased competition mark-up may have to be shaded and gross margins may become smaller. Such a trend would tend to depress corporate earnings.

Judging by experience this year, Penney earnings could decline moderately and still be well above anything ever experienced befor 1946. Th company reported net income of $17.4 million for 1945, equivalent to $2.11 a share on the outstanding 8.3 million shares of common. This was only slightly below the best previous record of $18.7 million or $2.45 a share in 1936. For the first six months of the current year, the company reported net income of $17.9 million or $2.19 a share. Ordinarily, the second half of the year is substantially more profitable than the first six months. If this pattern holds true for 1946, net income may reach a level of between $35 and $40 million. Accordingly, if profit margins become narrower in the next year or two and earnings should recede to an equivalent of from $3 to $4 a share, such a performance still would far surpass anything accomplished before the war. If business should drop back to a depressed level and earnings of Penney should decline substantially, it seems difficult to forecast net income any lower than the average for the war years. This assumes, of course, that Federal taxes are not increased. On the other hand if the tax levy should be lowered to around the pre-war rate, earnings still might compare favorably with the average of about $2 a share reported for the past ten years.

As in the case of most other merchandising organizations which had suffered from the impact of high wartime taxes, Penney's true earning power apparently has been obscured. Significance of the fact that sales volume has advanced almost 100 *per cent from the* 1941 *figure, which was regarded as relatively high, apparently is not fully appreciated. Although this increase is partly attributable to higher prices for all kinds of merchandise, nevertheless it is obvious that the price factor alone cannot account for the entire improvement. In other words, the Penney territory is growing and Penney customers have had more cash to spend for available merchandise. From this analysis, it would seem logical to think that even if business conditions are temporarily depressed in the coming year, Penney sales might be*

expected to resist declining tendencies to a greater extent than business in chain store organizations having a less pronounced growth factor.

In appraising the outlook for mechandising organizations, it also is interesting to examine the ratio of operating income to sales. This factor throws light on the efficiency of management. In the case of Penney, the profit margin has been maintained at an unusually high level and through the war years has steadily widened. No statistics are available for 1946 results, but interim earnings figures suggest that the ratio for the current year may be the best ever reported. When it is considered that a margin of 5 to 8 per cent is regarded as satisfactory, the Penney figures of 7 to 11 per cent for recent years are impressive.

Some of the informative figures for recent years are tabulated below:

	1939	1941	1944	1945 *
	(millions of dollars)			
Net sales	$282.1	$377.6	$489.9	$549.3
Operating Income	19.9	34.5	57.7	59.8
Profit margin	7.1%	9.1%	10.8%	11.2%
% Earned on Inv. Capital	21.4%	19.2%	16.9%	16.5%

	1939	1941	1944	1945 *
	(millions of dollars)			
Income Taxes	$ 3.5	$ 17.0	$ 40.4	$ 44.0
Net income	16.5	17.1	17.2	17.4
Earned per share	$ 2.16	$ 2.08	$ 2.08	$ 2.11
Paid in div.	1.66	1.66	1.66	1.66
Price Range	32—25	30—24	38—31	54—33
Book Value	$ 9.86	$ 10.61	$ 12.36	$ 12.81

Mangement usually has pursued a liberal dividend policy in recent years. This practice probably has been followed because such a high precentage of stock is held by officers and employees of the Penney organization. Several years ago incentive compensation was distributed in the form of stock to executives and store managers. As the company has grown and the shares have been divided, holdings by insiders have become substantial. There is reason to feel that management hopes to continue liberal distributions which would provide extra compensation in the form of cash dividends.

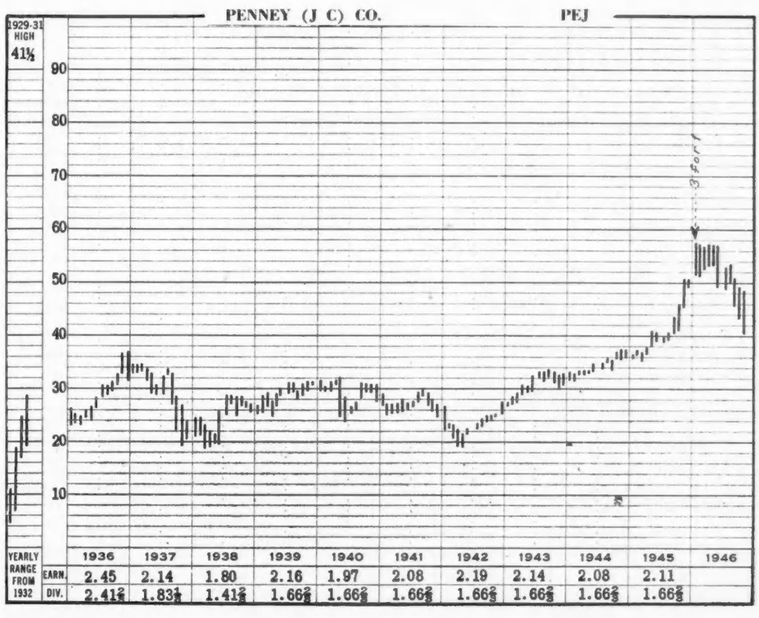
The regular dividend rate has been increased to 50c quarterly which places the stock on a $2 annual basis as compared with the $1.40 annual basis that had previously prevailed after the three-for-one stock split effected last January. Prior to that for several years it had been kept at a $5 a share annual rate. If distributions should amount to no more than $2 a share annually, this would be equivalent to $6 a share for the old stock. It seems possible, however, on the basis of earnings prospects that more liberal extra payments may be made. Dividends have been paid every year since formation of the present company twenty-two years ago.

Pertinent Balance Sheet Items

ASSETS	Dec. 31, 1936	June 30, 1946	Change
Cash	$12,703	$31,590	+$18,887
Marketable securities	....	10,025	+ 10,025
Receivables, net	378	355	— 23
Inventories, net	52,760	127,078	+ 74,318
TOTAL CURRENT ASSETS	65,841	169,048	+103,207
Net property	9,974	15,171	+ 5,197
Other assets	6,511	6,946	+ 435
TOTAL ASSETS	82,326	191,165	+108,839
LIABILITIES			
Accts. payable and accruals	11,527	41,023	+ 29,496
Reserve for taxes	3,378	32,649	+ 29,271
TOTAL CURR. LIABILITIES	14,905	73,672	+ 58,767
Reserves	2,014	2,840	+ 826
Capital	28,123	34,123	+ 6,000
Surplus	37,284	80,530	+ 43,246
TOTAL LIABILITIES	82,326	191,165	+108,839
WORKING CAPITAL	50,936	95,376	+ 44,440
Current Ratio	4.4	2.3	— 2.1

In surveying the outlook for the next few years, it must be admitted that in Penney's case the company's element of wartime strength now looms as a source of potential trouble. The company had concentrated on "soft goods" in past years and this fact enabled it to avoid the headaches of declining sales volume when household furnishings, electrical appliances and other "hard goods" normally distributed by department stores disappeared from the market in 1942 and 1943.

Moreover, Penney was ideally situated to enlarge its apparel volume because of its influential contacts with manufacturers specializing in clothing and textile linens. Accordingly, Penney's business was stimulated to a considera- (*Please turn to page* 275)



Cumulative Growth Stocks FOR Long-Term CAPITAL GAINS

By H. S. COFFIN

If the Russians cared to see a condensed picture of how a capitalistic system can and does succeed in achieving prosperity for both investors and labor alike, all they need would be to scan the financial page of our daily papers. While the stock quotations given would carry small significance, the long list of giant concerns which have attained their stature by long time growth through thick and thin—in almost every form of major enterprise—provides an amazing index page in economic history. When it comes to individual companies, of course, research will disclose decided variations in results over a long term, but upon the roster are hundreds of names with a record so indicative of vigor that their shareholders have exhibited undiminished loyalty under any and all conditions. This presents an interesting aspect of investment strategy which we will now discuss.

Beyond any doubt, a far greater proportion of investors than might be imagined care little or nothing at all about periodical gyrations in stock prices. Indeed, there are legions of investors whose acquisition of shares has been based upon a long term program only, with no thought or desire to consider paper profits or losses when they crop up. While, to be sure, such policies may lead to unwise freezing of a portfolio, quite as often confidence in a strong management warrants an indefinite retention of the shares, where reasonably stable income or hopeful improvement in fundamentals rather than in price is the issue at stake. Provided an investor makes truly intelligent selections and continues alert in making periodic studies of his chosen favorites, the records are replete with examples where static investment programs have proven out all to the good.

As time passes and investors numerically are estimated as well above 15 million, it is interesting to note a downward trend in average individual share holdings. In the case of General Motors Corporation, for instance, aside from 10 million shares held by du Pont, the average shares held by some 400,000 investors are less than 100 in number. Similarly, odd lot holdings have come to be the rule with many other large concerns. While it is true that speculation in odd lots is quite a common practice, common sense suggests that genuine thrift rather than sporting instinct is the outstanding motivation back of most investment programs today. More closely appraised, it seems likely that basic thoughts of putting savings to work "in business" rather than "in the stock market" are strongly in the foreground. On this premise, the trend is extremely healthy, for everyone in business knows in advance that poor years, as well as good, are a normal expectancy. Sustained confidence thus entailed, however, forces unusual reliance upon selectivity, if drab or disappointing outcome is to be avoided. Timing of the original acquisition, moreover, has a strong influence in determining yield upon the investment. When yields were at record lows, for instance, during the recent peak period of stock exchange prices, odd lot buyers were an important factor in bidding up prices, and during the drop that followed are reported to have taken 20 million shares on balance from larger and more experienced investors.

Granted that an increasingly large number of small, and perhaps large, investors have become imbued with a policy which would seem unorthodox to practically all well trained counsellors, in overlooking profitable opportunities to cash in when stock prices are soaring, or shift their holdings into more promising issues from time to time, it is timely to study the safest methods by which such a program might be implemented. It is impossible to go far in this direction without realizing how well wealth has been compounded by many concerns for their shareholders as a result of long term growth, quite irrespective of lean or bright intervals or major fluctuations in prices for their shares. Conversely it is even easier to detect innumerable examples where misplaced confidence in a concern's potentials, along with stubborn refusal to part with its shares, have brought nothing but meager returns or serious disappointment. Additionally it is quite simple to look backwards and point out how much better off any and every stockholder would have been had he taken advantage of appreciation in price at odd times to bolster his income from dividends, provided his market sense was up to the mark at all times. But this is too much to hope for. It is surprising what a wide price range has been the rule in nearly every year for even the bluest of the "blue chip"

issues of various types and descriptions.

For investors convinced that once they have selected a concern to which they wish to entrust their funds for relatively steady income, or on the chance of sharing in their natural long term growth, it is wise to pick out those with proven ability to ride through hard times more rapidly or more easily than those in other fields. Even though a concern may have experienced red ink in dismal 1932 or 1938, this is of less importance than its skill in pulling out of unavoidable holes to resume its normal growth. And although, as pointed out earlier in our discussion, there are a long string of concerns which have paid dividends for twenty five or fifty years past, this fact alone does not accord their record future infallibility. Additionally, some of the best selections will be found in industries which traditionally suffer heavily during depression periods. Where concerns have proved to be the exception in such a group, the proven advantage is more than ever in their favor. Provided the initial investment has been based upon dependable research of every character, and the new holder has a warrantable desire to "stick by the ship" for a long time, he should arm himself against possible indecision when pessimism becomes enhanced by transient stock market declines or definite economic slumps. In other words, our advice to special clients of this type would be sit tight and not lose confidence in the final outcome—regardless of paper profits or losses to take no action at all.

A Few Examples

To cite a few of many outstanding examples of individual industrial progress where unshaken faith in an investment has amply rewarded shareholders, we have appended a table covering their record for several decades past. Currently the economic status of the nation is similar in many respects to that following War 1, when inflationary forces were at work. After the serious recession which followed, industry hit an unparalelled pace in developing mass production until checked by the record slump in the 1930s. For a decade thereafter, industry struggled slowly ahead under the impact of New Deal philosophy until War II created an amazing burst of vitality. While the road ahead still has to be cleared of labor problems, all other factors point to an era of widespread expansion in manufacturing and trade over a long term. When the right time comes to buy prime stocks at favorable levels, the stage will be all set for confident investors to fill their boxes with shares of soundly chosen concerns especially deserving of prolonged retention, if that be the fundamental requirement.

International Business Machines

As an individual case in the current discussion, consider International Business Machines Corporation. Back in 1920, two years after the termination of War I, this presently leading maker of electrically operated equipment for business offices had outstanding slightly less than 200,000 shares of common stock, priced around 50 at that time. Hence 100 shares could have been acquired at a cost of about $5000, and as the dividend rate during 1920 was $4 per share, income came to $400. Assuming that Rip van Winkle was the buyer and slept right through the years from 1920 until now, upon awakening he would find himself, as we figure it, the possessor of approximately 840 shares worth close to $200 each, producing an annual income of $5,042. All of this without counting an accumulation of cash dividends which flowed in without a break for 26 years, increasing fairly steadily to their present proportions. As it happens, there are probably a great many people alive who actually experienced Rip's good fortune, through consistent allegiance to a sound and growing business enterprise. While history may not repeat itself during the years ahead, opportunities for continued growth by this concern have by no means been exhausted, to put it mildly, and at least its strongly entrenched position favors prospects for earnings stability under almost any adverse conditions which may arise. The secret accountable for the long term improvement in both capital and income in this instance has been a long maintained policy to bolster generous cash distributions to shareholders with more than occasional stock rividends. In sixteen different years, the management has handed out to its investors stock dividends ranging from 2% to 20%, in late years amouting to about 5%. By holding the cash dividend rate to an average around 6%, income by shareholders was compounded on their steadily increased stocks held. In other words, investors benefitted directly from undistributed earnings put to work for them by the company.

Stock traders may scoff at investors in International Business Machines Corp. in pointing to annual fluctuations in the price of its shares since 1920. As a matter of fact, an average price range of about 40 points per annum during 26 years certainly did create interesting speculative opportunities, had some wizard been smart enough to capitalize upon them. But in reviewing the gains achieved by the "sit and wait" investor, the chances are that the laugh would have been upon the most adroit speculator, while the conservative holder might have done

Examples of Capital Accumulation Through Selected Issues

	Year of Issue	Income from 100 Shares*	Income from Original 100 Shares In 1926	In 1946
American Home Products....	........—	....	$160	$260
Champion Paper & Fibre	1910—	$2,000	1,800	4,900
Coca-Cola	1920—	200	525	2,700
Food Machinery	1929—	150	....	442
Grant, W. T.	1928—	100	....	360
Hercules Powder	1913—	300	1,200	2,000
Int'l Business Machines........	1913—	300	1,050	5,052
Loew's	1920—	200	300	487
National Lead	1893—	200	800	2,437
Pfizer, Charles	1925—	44	47	1,100
Pittsburgh Plate Glass	1899—	500	1,800	1,920
Schenley Distillers	1936—	375	....	526
United Fruit	1899—	250	700	1,250
United Merchants & Mfrs.....	1937—	50	....	558

* For year indicated.

worse for himself had he attempted to gauge interim market swings or even broader cyclical movements. At least his long term program proved highly satisfactory in this instance, as anyone would agree.

Schenley Distillers

Schenley Distillers presents another instance of how an obstinate shareholder would have gained rather spectacularly had he bought shares in this concern only thirteen years ago and held them until now, shutting his eyes competely to fluctuations in their price in the meanwhile. Undoubtedly many well informed investors have carried out just this program and none can regret their experience. When prohibition days came to an end in 1933, no great imagination was required to forsee an exceptional growth for first class distillers. Schenley Products Co., formed in 1920, seized the opportunity by exchanging its shares for those in the present Schenley Distillers Corporation. By degrees in following years, many other old established makers of liquor, wines, barrels and other items, tending to effect both diversification and integration, were brought into the family. As the gathering included in the final tally more than fifty units, many with well entrenched brands to supplement Schenley's own broad offerings, sales rapidly expanded. Through economies due to concentrated management and sales efforts, profit margins tended to widen, so that in 1933 shareholders a per share dividend of $2.25 was paid, along with an extra of $1.50, plus 1 / 40 share of 5½% preferred stock.

At the outbreak of war, production of alcohol on a vast scale for the Government halted all production of new whiskey, but reserves of aged stock which could be blended with neutral spirits proved a valuable substitute. Despite price controls and heavy excess profits taxes, the large volume produced excellent profits for Schenley, and now that normal conditions have returned this strong concern appears to have a bright future ahead. In the course of progress, shareholders have received dividends in every year; meanwhile stock split-ups have occurred on three different occasions. As result of the latter, an original stockholder in 1933 now owns 5 5 / 7ths times as many shares as at first, each receiving dividends at the rate of $2 per annum, equal to $11.70 on his primary holdings. This shows how patience and confidence is sometimes rewarded when an investor makes a soundly predicated selection for his portfolio,—and hangs on to it.

National Lead

From an operational viewpoint, shareholders in National Lead Company have no occasion for worry in a single year since the beginning of the current century. This shows how deceptive fluctuations in share prices can sometimes be in reflecting the economic status or outlook for a concern, for caught in the downward current of the general stock market in 1932, National Lead shares (when their value was $100) sank to a level of 43¼, later soaring to 305 in 1936. Fact was that although net earnings of the company dipped slightly at the bottom of the depression, it was necessary to draw only moderately upon cash reserves to pay a substantial dividend equal to $5 per share. For forty years in a row shareholders have never failed to get their dividend checks right on schedule.

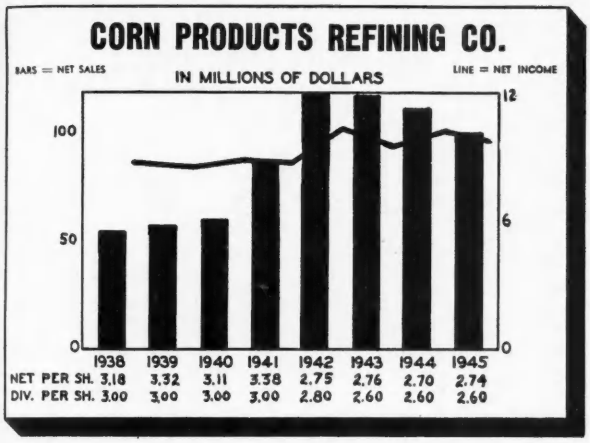
Not only stability has been a characteristic of National Lead, but consistent growth as well. Due to this latter factor, early shareholders who held their stock over a long period now enjoy a return upon their investment far above average. In 1927, common stockholders received 50% extra in new shares, along with another 50% in the form of 6% class B. preferred. In 1936, again, a reduction in par value resulted in a tenfold increase in the number of common shares held. Thus for every share held in 1927, fifteen common are now owned by old holders, plus ½ a share of Class B preferred. During 1944 and 1945, including extras, $1 per share was paid in common dividends, equal to $15 on the original stock. As National Lead has grown to be the largest producer of lead, tin and zinc products in the world, and now plans to invade the paint industry on a large scale, its shareholders have sound hopes of benefiting further through long term increase in the company's business. Perhaps they will find, as before, that loyalty is a valuable asset, if based upon sound fundamentals.

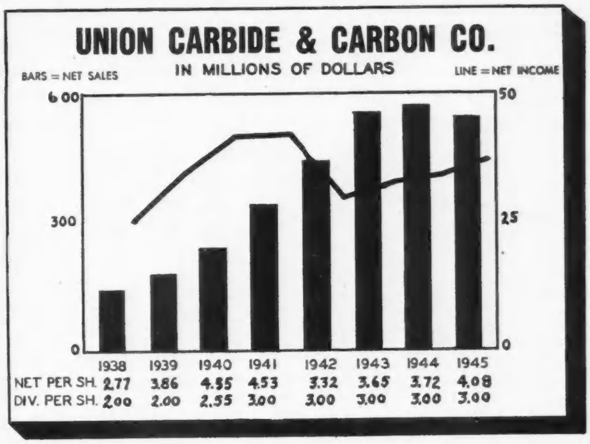
On an appended table we have listed about a dozen concerns which in the long run have done exceptionally well for their shareholders through growth and improved earning power. In restricting the number to relatively few, considerations of space were uppermost, for similarly good records could be cited for a very long list of leaders in the economy. In the long term growth of our industrial system in many a field, outstanding examples can be found of companies blessed with vision, courage and efficient management, to whom depressions meant little more than transient annoyances. In very few instances were competitive forces lacking, the sustaining advantage consisting mainly of product merit, conservative financial policies and markets which expanded with population growth.

In the case listed of United Fruit, of course, major concentration upon popularizing bananas was the primary spur to its long and well maintained growth. But where others lacked the imagination required to start and foster a promising undertaking of this kind, United Fruit stepped in determinedly. That its operations during the years have expanded enormously to include large scale shipping and to entrench the company in the Caribbean area is no accident. Now it is hard to visualize the advent of any economic conditions which for long could threaten United's growth and stable earning potentials. Its shareholders have been liberally rewarded for their past confidence and should continus to sleep soundly at night.

The fine record of Coca Cola has been established by skillful promotional activities over a long period of years, adherence to a low priced drink with almost unlimited market potentials and cleverly devised distributing poli- (*Continued on page* 277)

6 Stocks With Long Dividend Records





CORN PRODUCTS REFINING CO.

BUSINESS: Company ranks as the leading producer in the economy as a refiner of corn, with main output consisting of syrup, starch, sugar, oil and with by-products creating valuable feed for cattle and chickens. Dozens of important industries look to the company for their supplies in this field, while many foreign subsidiaries operate abroad.

OUTLOOK: For many years past, this strongly entrenched concern has established an exceptionally good record for earnings stability, regardless of general variations in business conditions undergone by other industries. In 1932, for example, net dipped to $2.77 per share, only to advance to $3.87 in the following year. Glancing back for a full period of 14 years, net earnings have had a narrow range from a high of $3.87 per share in 1933 to a low of $2.52 in 1938, averaging close to $2.75 per share during four years ending at December 31, 1945. While strikes and scarcity of corn caused a deficit of 14 cents per share in the first half of 1946, the bumper corn crop now enhances a bright near term outlook. Given normal conditions, the company should at least equal its traditionally stable record. Demand for CPR's numerous products is running strong, while working capital of more than $60 million makes for a better than comfortable financial status.

DIVIDENDS: During twenty-six years past shareholders in this concern have never failed to receive a dividend. Even current upset conditions have not disturbed a rate of $2.60 paid since 1943. Prior to that year, as far back as 1930, the rate per share ranged from $2.90 to $4.25.

MARKET ACTION: At a recent price of around 70, these shares were near the top for 1946, low for the year having been 58¼. Considering general market conditions, the shares have exhibited relatively little volatility.

COMPARATIVE BALANCE SHEET ITEMS

	Dec. 31, 1941	Dec. 31, 1945	Change
	(000 omitted)		
ASSETS			
Cash	$23,058	$11,990	—$11,068
Marketable securities	10,854	37,998	+ 27,144
Receivables, net	6,818	5,765	— 1,053
Inventories, net	14,902	7,025	— 7,877
E.P.T. Refund Bonds	....	1,720	+ 1,720
TOTAL CURRENT ASSETS	55,632	64,498	+ 8,866
Plant and equipment	64,675	68,545	+ 3,870
Less depreciation	31,043	37,047	+ 6,004
Net property	33,632	31,498	— 2,134
Other assets	22,871	23,382	+ 511
TOTAL ASSETS	112,135	119,378	+ 7,243
LIABILITIES			
Accts. payable and accruals	5,486	9,000	+ 3,514
Reserve for taxes	6,351	8,531	+ 2,180
TOTAL CURRENT LIABILITIES	11,837	17,531	+ 5,694
Deferred liabilities	70	....	— 70
Reserves	2,600	2,779	+ 179
Capital	87,780	87,556	— 224
Surplus	9,848	11,512	+ 1,664
TOTAL LIABILITIES	112,135	119,378	+ 7,243
WORKING CAPITAL	43,795	46,967	+ 3,172
Current Ratio	4.7	3.7	— 1.0

Thumbnail Stock Appraisal

UNION CARBIDE & CARBON CORPORATION

BUSINESS: Company ranks at or near the top as a producer of industrial gases, such as calcium carbide, acetylene and oxygen, electrodes, carbons and batteries, not to mention refined alloying metals. Additionally, Prestone anti-freeze, Bakelite, wood alcohol and a broad line of basic chemicals for plastics and synthetic rubber contribute towards widespread diversification. Consolidated assets total over $400 million.

OUTLOOK: Union Carbide's 20 or more important subsidiaries operating in the United States, Canada and Norway, aided by sales offices all over the world serve markets which are represented by almost every industry one could name. Extensive facilities for research enable the company to keep well in the fore as the second largest chemical concern in the country. Many new items born of wartime research may in due course expand a consolidated volume which topped half a billion dollars in 1944. While sales for 1945 are not stated, net earnings last year came to $37.8 million, equal to $4.08 per share, practically the same as for the previous year. Despite troubles early in the current year, first six months net per share amounted to $2.66 cents against a relative $2.11 in 1945. Under normal conditions, net earnings should expand further, due to heavy demand for the company's numerous products, tax relief, and sizable additions to facilities.

DIVIDENDS: As this business has produced substantial profits in every year since its inception in 1917, the company enjoys an unbroken record for dividend disbursements over the full term of its career. In fact shareholders have received more than $500 millions in dividends first and last, after allowance for large depreciation reserves. For a number of years past the annual rate has been steady at $3 per share.

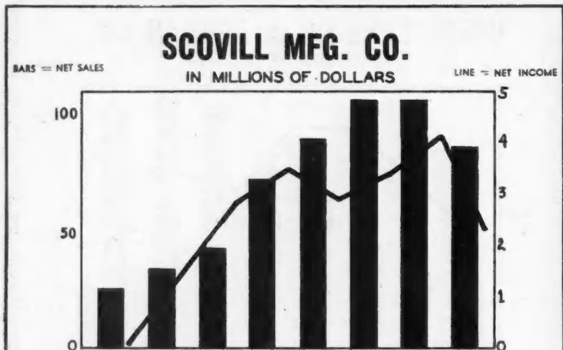
MARKET ACTION: Price range for 1946 has been high—125, low—88, with a recent level around 90.

COMPARATIVE BALANCE SHEET ITEMS

	Dec. 31, 1941	Dec. 31, 1945	Change
	(000 omitted)		
ASSETS			
Cash	$55,470	$104,059	+$48,589
Marketable securities	12,585	35,886	+ 23,301
Receivables, net	36,127	42,219	+ 6,092
Inventories, net	61,487	80,067	+ 18,580
Other current assets	....	19,340	+ 19,340
TOTAL CURRENT ASSETS	165,669	281,571	+115,902
Plant and equipment	314,548	373,807	+ 59,259
Less depreciation	111,425	256,690	+145,265
Net property	203,123	117,117	— 86,006
Other assets	28,970	29,390	+ 420
TOTAL ASSETS	397,762	428,078	+ 30,316
LIABILITIES			
Notes payable	2,035	....	— 2,035
Accts. payable and accruals	25,642	28,957	+ 3,315
Reserve for taxes	49,171	63,755	+ 14,584
TOTAL CURRENT LIABILITIES	76,848	92,712	+ 15,864
Deferred liabilities	1,095	1,625	+ 530
Long term debt	26,400	....	— 26,400
Reserves	....	24,892	+ 24,892
Capital	192,880	192,880	....
Surplus	100,539	115,969	+ 15,430
TOTAL LIABILITIES	397,762	428,078	+ 30,316
WORKING CAPITAL	88,821	188,859	+100,038
Current Ratio	2.1	3.0	+ .9

Thumbnail Stock Appraisal

6 Stocks With Long Dividend Records



	1938	1939	1940	1941	1942	1943	1944	1945
NET PER SH.	.13	1.56	2.70	3.33	2.68	3.17	3.97	2.28
DIV. PER SH.	.50	1.25	1.50	2.00	2.00	2.00	2.00	1.50

SCOVILLE MANUFACTURING COMPANY

BUSINESS: Company continues on a greatly expanded scale an enterprise started in 1805. More than 15,000 different items made of non-ferrous metals, for the most part, are included in its output. In addiion to dominant production of pins, metal buttons, compacts, gauges and food mixers, schedules include plumber's supplies, electric appliances and a broad range of mill products sold to other manufacturers. The business is of worldwide scope.

OUTLOOK: Scoville's strongly entrenched trade position, along with its far-above-average diversification of output, have always provided its business with growth potentials, while at the same time tending to create some measure of relative stability. Peak sales of $108 million in 1943 compare with $20 million in 1934, relative per share net earnings in these two periods of $3.17 and 84 cents respectively remaining fairly attuned to volume. Compa-able figures for 1945 were sales—$86 million, and net per share—$2.28. While the basic character of the business exposes it to cyclical influences, as evidenced by red ink during the depression year of 1932, rapid rebounds to satisfactory operations have been a predominant feature of operations. With every prospect that sales will continue far above prewar and with taxes decidedly lower, net earnings henceforth should display marked improvement.

DIVIDENDS: An unbroken record of payments for 88 yea-s past tells its own story. While the rate has been somewhat variable over the years, $2 per share was paid during the first four years of War II, and $1.50 in 1945. In recent months, the quarterly rate has been restored to a 50 cents per share level.

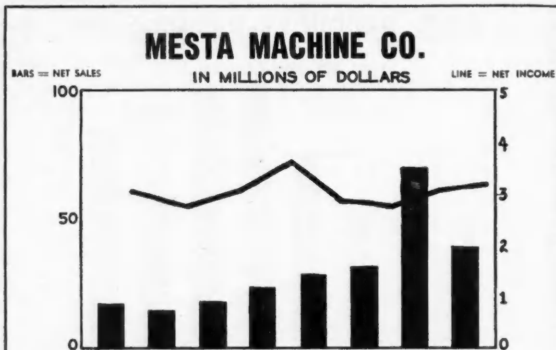
MARKET ACTION: A recent price of 32 compares with a peak of 47 for 1945. In 1939 the range was high—38⅞, low—18½, indicating considerable volatility.

COMPARATIVE BALANCE SHEET ITEMS

	Dec 31, 1941	June 30, 1946	Change
	(000 omitted)		
ASSETS			
Cash	$2,310	$2,588	+ $278
Marketable securities	445	1,218	+ 773
Receivables, net	6,142	4,296	— 1,846
Inventories, net	11,997	17,038	+ 5,041
Other current assets	....	181	+ 181
TOTAL CURRENT ASSETS	20,894	25,321	+ 4,427
Plant and equipment	48,491	55,677	+ 7,186
Less depreciation	27,875	29,256	+ 1,381
Net property	20,616	26,421	+ 5,805
Other assets	9,221	2,462	— 6,759
TOTAL ASSETS	50,731	54,204	+ 3,473
LIABILITIES			
Accts. payable and accruals	2,172	3,410	+ 1,238
Reserve for taxes	4,756(a)	5,215	+ 459
TOTAL CURRENT LIABILITIES	6,928	8,625	+ 1,697
Long term debt	9,500	4,000	— 5,500
Reserves	1,459	4,400	+ 2,941
Capital	26,171	26,171	....
Surplus	6,673	11,008	+ 4,335
TOTAL LIABILITIES	50,731	54,204	+ 3,473
WORKING CAPITAL	13,966	16,696	+ 2,730
Current Ratio	3.0	2.9	— .1

(a) After $5 million U. S. Treas'y Notes.

Thumbnail Stock Appraisal



	1938	1939	1940	1941	1942	1943	1944	1945
NET PER SH.	2.91	2.72	3.08	3.61	2.89	2.76	2.96	3.15
DIV. PER SH.	3.00	1.50	2.00	2.25	2.87½	2.50	2.50	2.50

MESTA MACHINE COMPANY

BUSINESS: Mesta is one of the two leading producers of heavy machinery, equipment for steel mills, steel forgings and castings. The business, incorporated in 1898, originally was a consolidation of two older units.

OUTLOOK: As a ranking specialist in its important field, company early established and held an enviable position which tended to stabilize operations in an industry generally considered highly sensitive to economic swings. During poor times, some of the large and affluent producers of steel and other durables often take advantage of lowered prices to expand and modernize their facilities. Mesta's high repute and technical skill during such periods have helped to sustain sales on a fairly satisfactory basis, although earnings naturally have varied. Some of the largest continuous strip mills now in use have carried the Mesta label. During the last twelve years, net earnings have been consistent in every period, ranging from a low of $1.45 per share to a peak of $4.67 in 1938. Despite Federal excess profits taxes of $3 million in 1945, the company reported net earnings of $3.1 million, equal to $3.15 per share. As Mesta had unfilled orders of about $25 million early in 1946, tax relief and fairly harmonious labor relations should enhance prospects for wider profit margins when 1946 full results are being added up.

DIVIDENDS: The uninterrupted dividend record of Mesta Machine dates back to 1914, in spite of several severely depressive periods during this 32 year interval. Distribution policies of the company are liberal, as shown by an annual rate of $2.50 per share for a number of years past.

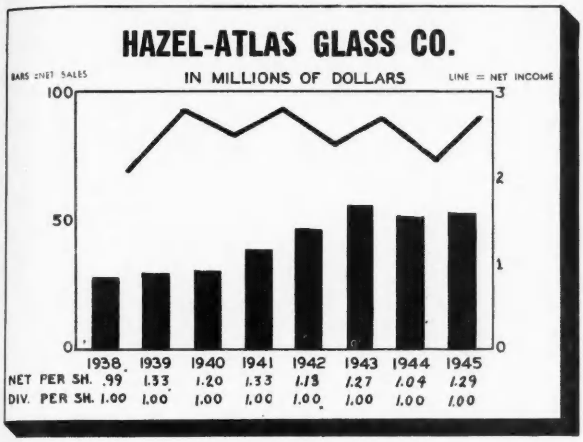
MARKET ACTION: At a recent price of 41, these shares were only about a point above low mark for 1946, against a peak level for the year of 61½.

COMPARATIVE BALANCE SHEET ITEMS

	Dec. 31, 1941	Dec. 31, 1945	Change
	(000 omitted)		
ASSETS			
Cash	$2,526	$3,700	+ 1,174
Marketable securities	....	5,519	+ 5,519
Receivables, net	5,036	4,476	— 560
Inventories, net	3,806	1,826	— 1,980
Other current assets	....	471	+ 471
TOTAL CURRENT ASSETS	11,368	15,992	+ 4,624
Plant and equipment	15,608	16,287	+ 679
Less depreciation	5,535	6,826	+ 1,291
Net property	10,073	9,461	— 612
Other assets	76	40	— 36
TOTAL ASSETS	21,517	25,493	+ 3,976
LIABILITIES			
Accts. payable and accruals	2,541	2,083	— 458
Reserve for taxes	3,768	5,585	+ 1,817
Current Reserves	357	1,247	+ 890
TOTAL CURRENT LIABILITIES	6,666	8,915	+ 2,249
Reserves	235	330	+ 95
Capital	4,932	4,932	....
Surplus	9,684	11,316	+ 1,632
TOTAL LIABILITIES	21,517	25,493	+ 3,976
WORKING CAPITAL	4,702	7,077	+ 2,375
Current Ratio	1.7	1.8	+ .1

Thumbnail Stock Appraisal

6 Stocks With Long Dividend Records



HAZEL-ATLAS GLASS COMPANY

BUSINESS: Nearly fifty years of growth have pushed this aggressive concern close to the top among domestic producers of glass and metal containers, tableware also giving some degree of diversification. Everything from bottles to fruit jars is manufactured by modern high speed machinery. 11 plants are operated.

OUTLOOK: As the company is favored with large orders from the food industry, fluctuations in volume during periods of general depression are less in evidence than in other forms of enterprise. Profit margins and net earnings likewise are above-average stable over a long period of time. With all forms of food processors currently clamoring for containers and with orders coming in fast for many of the 1500 different items among the company's offerings, prospects for the near term are excellent. Raw material problems are lessened through ownership of sand beds in both Oklahoma and California, assuring abundant and cheap supplies for the strategically located manufacturing plants of the company. As indicative of stable earning power, net per share has varied from $4.68 at the depth of the depression to $8.01 in 1943, that is to say on the shares prior to a recent split-up of 5 for 1. In 1945, $6.43 was reported for the old shares, equal to $1.28 on the present issue. For 12 months ended June 30, 1946 earnings rose sharply to $10.62 per share, on a pre-split basis, or $2.12 on the current set up, with the June quarter showing largely accountable.

DIVIDENDS: Company policies as to distributions have been liberal in every year since 1908. Based on the new shares, $1.20 per share was paid from 1938 through 1945. Thus far in 1946 an equivalent of $1.20 has been paid and the directors have just come through with a year end dividend of 65 cents per share.

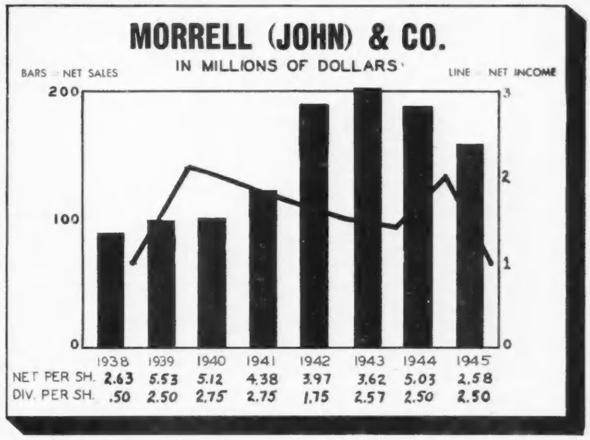
MARKET ACTION: A recent price of 32 compared with a 1946 high of 34¾ and a low of 29¼, indicating a high measure of relative price stability.

COMPARATIVE BALANCE SHEET ITEMS

	Dec. 31, 1941	Dec. 31, 1945	Change
	(000 omitted)		
ASSETS			
Cash	$1,149	$1,497	+ $348
Marketable securities	6,000	10,939	+ 4,939
Receivables, net	3,480	3,068	— 412
Inventories, net	6,149	5,097	— 1,052
Other current assets	....	173	+ 173
TOTAL CURRENT ASSETS	16,778	20,774	+ 3,996
Plant and equipment	18,484	19,827	+ 1,343
Less depreciation	9,476	12,310	+ 2,834
Net property	9,008	7,517	— 1,491
Other assets	1,350	243	— 1,107
TOTAL ASSETS	27,136	28,534	+ 1,398
LIABILITIES			
Accts. payable and accruals	942	1,759	+ 817
Reserve for taxes	3,082(b)	14(a)	— 3,068
Other current liabilities	....	113	+ 113
TOTAL CURRENT LIABILITIES	4,024	1,886	— 2,138
Reserves	2,275	2,275	....
Capital	10,860	10,860	....
Surplus	9,977	13,513	+ 3,536
TOTAL LIABILITIES	27,136	28,534	+ 1,398
WORKING CAPITAL	12,754	18,888	+ 6,134
Current Ratio	4.2	11.0	+ 6.8

(a) After deducting $6,945,600 U. S. tax notes.
(b) After deducting $150,000 prepayment.

Thumbnail Stock Appraisal



JOHN MORRELL & COMPANY

BUSINESS: This fifth largest among the nation's meat packers has won a reputation for product quality excelled by none, and its methods of operation have been the occasion of much favorable comment. Although the business originated in England in 1825, where a large business is still conducted, headquarters have been established in Ottumwa, Iowa since 1877. Packing of pork products is the main activity, but sheep and cattle are also processed. And some diversification is afforded by vegetables, dairy products and "Redheart" dog food.

OUTLOOK: In common with many other producers of foods, the business of Morrell has been profitable during periods when other forms of industry have experienced tough sledding. True, in 1937, earnings of this concern ran rather surprisingly into the red, despite a ten year sales peak of $89 million in that year. But in 1932, when sales were only $46 million, net profits were still fair. With the one exception mentioned profits since 1929, at least, have been quite stable, averaging about $4.40 per share on 400,000 shares of one class stock. Despite an outstanding record for good labor relations, a strike hampered operations early in 1946 and along with all other packers Morrell experienced trouble with animal supplies and Federal restrictions. But sales for the first three quarters of the company's current fiscal have topped $120 million, close to the relative level of the previous year. Although profit margins are narrow, net earnings for 1946 should be satisfactory.

DIVIDENDS: An exceptionally strong financial status and generally stable earnings have resulted in payment of dividends in every year since 1929. $1.40 per share was paid last year and 40 cents was the rate for the latest quarterly distribution in 1946.

MARKET ACTION: Recent price—44 compared with high for 1946 of 56 and low—42.

COMPARATIVE BALANCE SHEET ITEMS

	Nov. 1 1941	Nov. 3 1945	Change
ASSETS	(000 omitted)		
Cash	$3,318	$2,465	— $853
Marketable securities	....	3,631	+ 3,631
Receivables, net	7,256	4,662	— 2,594
Inventories, net	11,985	9,865	— 2,120
Other current assets	....	522	+ 522
TOTAL CURRENT ASSETS	22,559	21,145	— 1,414
Plant and equipment	24,065	24,744	+ 679
Less depreciation	8,008	11,170	+ 3,162
Net property	16,057	13,574	— 2,483
Other assets	1,068	4,909	+ 3,841
TOTAL ASSETS	39,684	39,628	— 56
LIABILITIES			
Notes payable	7,081	....	— 7,081
Accts. payable and accruals	2,048	2,450	+ 402
Reserve for taxes	736	396	— 340
Other current liabilities	150	186	+ 36
TOTAL CURRENT LIABILITIES	10,015	3,032	— 6,983
Deferred liabilities	204	....	— 204
Long term debt	4,700	10,000	+ 5,300
Reserves	640	1,057	+ 417
Capital	15,236	15,639	+ 403
Surplus	8,889	9,900	+ 1,011
TOTAL LIABILITIES	39,684	39,628	— 56
WORKING CAPITAL	12,544	18,113	+ 5,569
Current Ratio	2.2	7.0	+ 4.8

Thumbnail Stock Appraisal

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FOR PROFIT AND INCOME

★ ★ ★

Still "In the Groove"

On the basis of closing prices, the Dow-Jones industrial average has now held in approximately a 12-point trading range for eleven weeks. *The longer such interludes last, the more vigorous may the movement be on the break-out.* Trading ranges are "wait and see" periods, reflecting investment and speculative indecision. More time is spent in them—in both bull and bear markets—than you probably imagine. This one is nowhere near a record in duration. To cite only bear-market examples, there was a 13-week range, without new lows, in the summer of 1930; an 18-week range from late 1930 into the forepart of 1931; a 13-week range from late 1931 into early 1932; and a range of about 17 weeks from November, 1937, through most of the winter of 1938. All of those were broader ranges, in percentage, than the present one. Break-outs sometimes are of limited significance, merely widening the previous range somewhat without inaugurating a sustained trend. Thus, there have been four new lows in the industrial average since September 10, but they add up to an extension of the bear market by only about five points. If we get an upside break-out before the end of the year, do not take it for granted that the bear market is over. (Of course, there may be downside action instead; but as this is written the market has taken the coal strike with notable fortitude.)

Selectivity

The last two lows in the industrial average (closing prices) were 164.90 on October 10 and 163.55 on November 22. The difference is insignificant. But between those two dates there were *net declines* of 10% to more than 20% in such stocks as American Airlines, Eastern Air Lines, Allied Stores, Marshall Field, Lerner Stores, Goodrich, Schenley and Distillers Corp.-Seagrams. Many more could be cited. Generally speaking, recent selling has been heaviest in the more speculative stocks and/or in stocks which had risen most sensationally in the bull market. Such stocks would naturally come in for particularly heavy tax selling, as compared with stocks having an "investment flavor." For instance, between the two dates referred to, there were *net gains* in such stocks as American Gas & Electric, American Home Products, American Tobacco "B," C. & O., Commonwealth Edison, General Foods, Liggett & Myers and a number of others of similar "class." A good setting for a vigorous year-end rally would be provided by (1) settlement of the coal strike on acceptable terms (meaning more of a victory for the Government than for John L. Lewis) and (2) the abatement of tax selling. The sharpest percentage gains in such a rally would be in speculative stocks recently under heavy pressure, not in the "quality" issues.

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1946	1945
Eastern Airlines	9 mos. Sept 30.	$1.21	$ .57
Exchange Buffet	6 mos. Oct. 31	.36	.24
Food Machinery	9 mos. Sept. 30	5.30	4.88
Goebel Brewing	9 mos. Sept. 30	.45	.30
Island Creek Coal	9 mos. Sept. 30	2.37	2.29
Kellogg (Spencer) & Sons	Year Aug. 31	4.24	2.49
Martin-Parry	Year Aug. 31	1.55	.81
Pet Milk Co.	Sept. 30 Quarter	3.44	1.22
Pond Creek Pocahontas	9 mos. Sept. 30	2.09	1.19
Walgreen	Year Sept. 30	2.64	2.20

Coppers

When Kennecott Copper was at its bull-market high of 60¼, copper was under a ceiling price of 12 cents a pound, plus subsidies for high-cost metal. Now with a free market restored, copper has soared to 19½ cents a pound, the highest price in many years. But Kennecott is now priced around 46, not greatly above its low to date in the bear market; while Phelps-Dodge is around 38, against bull-market high of 48. These two are the best-situated domestic producers, although Kennecott is not exclusively domestic. With the metal at 19½ cents, both can make beautiful profits per share—as long as demand remains at the present good levels. It is obvious that the market has some doubts about the permanence of the high demand, or the high price or both. Otherwise, the leading copper stocks would be at far higher market prices. At that, they should be among the leading issues if and when we get an intermediate recovery. Few, if any companies, are sure of such "exciting" profit improvement at least ov^r the medium-term. (For further details, see "What About Non-Ferrous Metals—Now?" in this issue.)

Exceptions

For special reasons which can rarely be foreseen, a few stocks refuse to "recognize" a bear market—at least, they stand up through the first phase. In recent weeks the following equities have either made new bull-market highs or virtually duplicated their previous highs: Brewing Corp., Melville Shoe, Bayuk Cigars, Bower Roller Bearing, Ohio Edison, Federal Mogul, Corn Products and Lion Oil.

Labor Costs

This column does not know how the coal strike will be settled, but will guess that the miners will get at least some boost in wages. So will a good many other unions. Anyone who thinks that "labor trouble" is temporary or will be entirely cured by the coming legislation is foolish. The labor angle should be carefully considered in weighing an investment decision to buy, or sell, any stock. Other things being anywhere near equal, rising wage costs are the least threat in industries where wage costs equal a small percentage of gross revenue and where operating margins are wide. Over the long pull, they can also be better absorbed by growth industries than by others. Some industries meet one of the conditions cited. Few meet all three of them. Industries with lowest wage costs, relative to sales, include flour milling, dairy products, soap, vegetable oils, cigarettes, petroleum products, paints, and drugs and proprietary products.

One of the Best

Speaking of labor costs, there is a great deal to be said for well-situated manufacturers of drugs and/or proprietary products. They meet the three requirements cited in the preceding item. Wages equal less than 10% of dollar sales, and are as little as 5% in some cases. Operating margins are wide, often as much as 20% to 30%. Long term growth prospects, especially in ethical drugs, are good. Repeal of the excess profits tax has permitted a huge rise in earnings this year. Sales are not believed to be abnormally inflated, in relation to national income. The business is normally stable. Thus, most companies in this field earned either a little more, or only slightly less, in the depression year 1938 than in the boom year 1937. Our inference is that it would probably take a severe depression to hit them; and that the predicted moderate recession somewhere in coming months should leave them virtually untouched. Because of the high level of profits and the decline in the market, these stocks are now priced on more reasonable price-earnings ratios, and a higher current-yield basis, than in a long time. Investment purchases of stocks like Abbott Laboratories, American Home Products, Merck, Parke Davis; Squibb, Mead Johnson, Bristol-Myers and Sterling Drug are well worth considering in any further periods of market weakness.

Building

We have said before that the corrective adjustment in building is likely to consist mainly of the elimination of black market prices and the contraction in present swollen gross margins of contractors. In this connection, you may be interested to know that in the much talked about depression year 1921 the physical volume of residential building was higher than in 1919 or 1920—proving that, within limits, an acute shortage of housing is a more influential factor than changes in national income. The more we think it over in this department, the more we feel that building in 1947, in both volume and dollar figures, is likely to compare favorably with 1946; and that prices received by materials manufacturers, unlike those of dealers, are unlikely to come down much, if any. In this view, well-situated building stocks should

(*Please turn to page* 276)

DECLINES SHOWN IN RECENT EARNINGS REPORTS

		1946	1945
Chicago Yellow Cab	9 mos. Sept. 30	$ .54	$ .95
Dana Corp.	Year Aug. 31	.71	3.74
Electric Auto Lite	9 mos. Sept. 30	1.50	3.38
General Railway Signal	9 mos. Sept. 30	.02	2.28
Louisville & Nashville R. R.	9 mos. Sept. 30	3.21	6.55
Magma Copper	9 mos. Sept. 30	.62	.96
Noranda Mines	9 mos. Sept. 30	2.27	3.06
Pullman, Inc.	9 mos. Sept. 30	.58	3.26
Thompson Products	9 mos. Sept. 30	1.05	3.39
United Air Lines	9 mos. Sept. 30	1.21	2.48

Opportunities...

for Income and Price Appreciation

IN BONDS And PREFERRED STOCKS

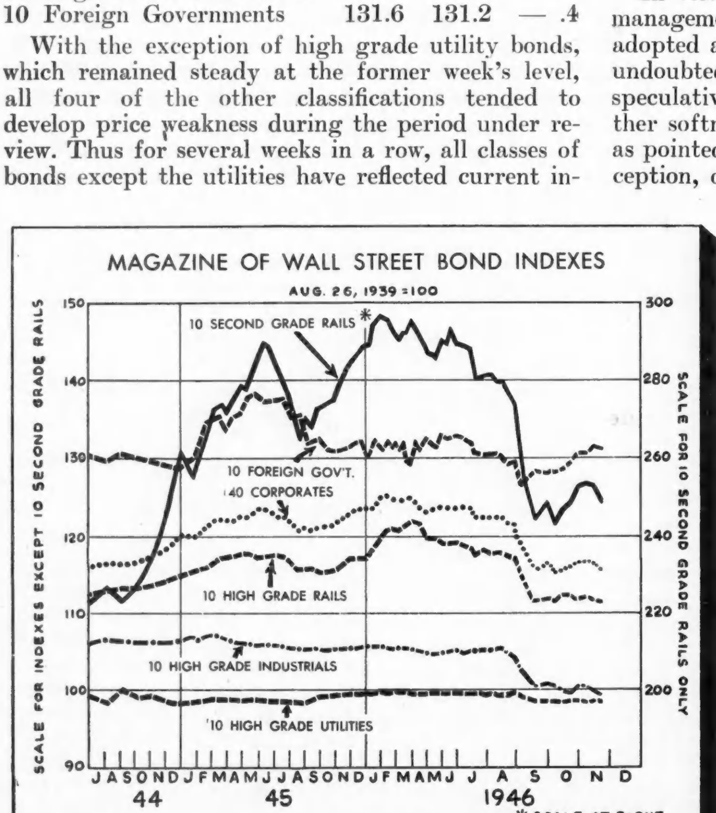
By JACKSON D. NORWOOD

THE MAGAZINE OF WALL STREET's Index of Bond Prices showed the following changes for the period indicated:

	On Nov. 16	On Nov. 23	
40 Domestic Corporates	116.6	115.8	— .8
10 High Grade Rails	111.7	111.5	— .2
10 Second Grade Rails	254.1	248.2	—5.9
10 High Grade Utilities	98.7	98.7	—
10 High Grade Industrials	99.9	99.3	— .6
10 Foreign Governments	131.6	131.2	— .4

With the exception of high grade utility bonds, which remained steady at the former week's level, all four of the other classifications tended to develop price weakness during the period under review. Thus for several weeks in a row, all classes of bonds except the utilities have reflected current influences arising from the threat of further interruptions to industrial progress, stemming mainly from the coal strike. And back of this major disturbing factor, still remains the uncertainty over the status of the economy in 1947, when over-all production catches up with consumer demand, granted that under the most favorable circumstances no secondary chain of work stoppages crops up to hamstring industrial operations.

In view of everything, it is not surprising that managements of large investment funds have adopted a cautious attitude in bidding for issues of undoubted merit, and especially for those with some speculative appeal. Until the air clears up, some further softness in prices may continue to be the rule, as pointed out repeatedly by this magazine. One exception, of course, may be the better grade utility bonds, for earnings in this relatively shock proof industry are expanding encouragingly, and under any and all circumstances are unlikely to recede sufficiently to dethrone these issues from their present pinnacle position. Potentials for the rails, however, are decidedly different, because traffic in hauling coal is a very important prop of revenues for many of the roads, quite aside from the impact of declining freight traffic if industry on a broad scale should be forced to curtail operations. Coming as it does, at the end of a generally discouraging year for most of the railroads, during which the ICC has failed to permit a rate rise adequate to offset a tremendous advance in operating costs, the walkout of the miners has naturally disturbed the minds of holders of rail securities. A decline of nearly 6 points in our index for second grade rails, accordingly, should occasion no great



surprise. In the opinion of our Magazine, the bottom for all but a few really top notch classes of securities has yet to be reached, suggesting the advisability of waiting until they get into a possibly better buying range.

On the heels of the election, some sizable issues of State and Local Municipals have either been sold or are approaching the bidding stage. As we predicted some time ago, the increased supply of these prime investment issues, offered largely to provide funds for soldier bonuses and public improvements, has tended to create some signs of weakness in their general market. On the average it is reported that prices for municipals have declined about 2 points, compared with the level of not so long ago.

The New-Issues market, despite all current uncertainties, is showing indications of an improvement in volume. Indicative of this has been the recent issues of Bethlehem and Crucible bonds, and the offering of General Motors preferred. It is clear that if sound issues of this character are priced in line with current conditions, plenty of investment funds can be found to absorb them. True, a wave of withdrawals of intended offerings has appeared of late, highlighted by the decision of Westinghouse Electric to wait a more promising market for its new common. But their concern is expected to come out before long with a new batch of preferred.

Suggestions for Current Investment Funds

Bonds:	Recent Price	Call Price	Current Yield
Amer. & For. Pwr. Deb. 5's, 2030	$106	$107½	4.7%
Boston & Albany R.R. Term. Imp. 4¼'s, '78	95	105	4.5
Missouri, Kan. & Tex. Ry. 1st 4's, '90	89	N.C.	4.5
N. Pacific Ref. & Imp. 5's, C, 2047	100	105*	5.0
Pittsburgh & W. Va. 1st 4½'s, 1958-60	89	102	5.1
Southern Pacific Deb. 4½'s, 1981	101	110	4.4
Texas & Pacific Ry. Gen. &Ref. 3⅞, '85	100	105½	3.9
Preferred Stocks:			
Assoc. Dry Goods $7 2nd Pfd.	$134	N.C.	5.2%
Baldwin Locomotive $2.10 Pfd.	41	$40	5.1
Barker Bros. 4½% ($50 Par) Pfd.	51	55	4.4
Curtis Publishing $4 Prior Pfd.	69	75	5.8
General Cigar 7% Cum. Pfd.	163	N.C.	4.3
Goodyear Tire & Rub. $5 Cum. Cv. Pfd.	106	110**	4.7
Lipton (Thos.) 6% Cum. Pfd. (Par $25)	31	30	4.8
Pacific G. & E. 5½% Cum. 1st Pfd. (Par $25)	37	N.C.	3.7
Stokeley-Van Camp $1 Prior Pfd.	21¾	21	4.5
Union Pacific 4% Non-Cum. Pfd.	107	N.C.	3.7
Virginian Rwy. 6% Cum. Pfd. (Par $25)	39	N.C.	3.9

N.C.—Not Callable. *Not prior to July 1, 1952.
**To 10/1/46; thereafter at 105.

GREYHOUND CORPORATION: 4¼% cumulative preferred stock, currently selling around 104, to yield just over 4%, appears to have fundamentals which warrant consideration by conservative investors, especially if for some reason a more favorable buying opportunity should crop up. Company owns a sizable interest in 39 intercity bus lines operating in 44 States and 7 Canadian Provinces. Growth of this enterprise has been quite consistent for some ten years past if not longer. Mileage operated has increased without a break in every year since 1933, with no signs of a let up in sight. By the addition of fast modern coaches, carrying passengers at a rate of about $1.61 per mile, competition from the railroads should not be overly bothersome. Net earnings have trended rather steadily upward over a long term, and during 1944 and 1945 averaged about $200 per share applicable to the preferred. For 1946 it looks as if the showing would have a decidedly wider margin. Late in 1944, Greyhound issued $10 million 3% 15 year debentures, half of which it is now about to retire, with corresponding technical benefit to the preferred. Outstanding are only about 48,000 shares of this interesting senior stock.

CRUCIBLE STEEL COMPANY OF AMERICA. 5% cumulative convertible preferred stock in declining to a recent price level around 95, compared with a high for the year of 115½, has attracted considerable comment of late. At its peak 1946 price, of course, this senior stock reflected speculative interest in the common, then selling a fraction above 54, for the preferred at any time may be exchanged for two shares of the equity issue. Apparently bidders for the preferred then considered a premium of 7 points satisfactory for a long term call upon the junior shares. In line with the general stock market slump, Crucible common declined percentage wise very substantially, and on the heels of an announcement that its dividend is to be passed, is hovering close to 30. On this basis, the conversion privilege has become uninteresting, for the time being at least. But at 95, the preferred now yields about 5.3%, if considered on a purely investment basis. Strikes during the first half of 1946 pushed Crucible net earnings into the red, but under normal conditions for a decade past the company has shown ability to earn more than three times its preferred dividend requirements. Despite the uncertain outlook ahead, it would seem unwise to sell this senior issue at current levels, although perhaps the price may go lower if the general market becomes still softer. Appearance of really good news, on the other hand, would likely bring an uptrend in its price, if based only upon considerations of yield.

BETHLEHEM STEEL CORPORATION: Consolidated Mortgage Thirty Year Sinking Fund 2¾% Bonds, Series J, due November 15, 1976, of which $50 million have just been offered by a strong banking syndicate at par and interest, indicate two significant factors. In the first place, fact that high grade industrial bonds can attract investment funds at less than 3% for as long a period as 30 years, points to continued expectations that nothing but relatively low interest rates are in sight for a long time to come. Secondly, net proceeds from the sale of this bond issue will be used for expansion of Bethlehem's facilities, unless conditions arise during the medium term to make such a step inadvisable. The company has definite plans prepared to (*Please turn to page* 273)

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET will answer by mail or telegram. a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope*.
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

American Woolen Co.

As a subscriber to your magazine, what would be your advice to me, who am in a position to take "a businessman's risk," to buy or not to buy 100 shares of American Woolen, common, prior to its selling ex-dividend the currently declared $12.00 dividend?
What is the outlook for the stock, pricewise, just after it sells ex-dividend?
Would you advise my continuing to hold 100 shares now held, purchased at 53⅛ until after ex-dividend date or getting out before said date, December 3rd? A stamped, self-addressed envelope is enclosed for your reply.

R.S., Jacksonville, Fla.

American Woolen Co.'s earnings this year are sensationally good and 1947 prospects are favorable also, though earnings will probably not be as good as during the current year. But let us look at the long term record. American Woolen Co. reported very good earnings during World War I and the short boom that followed but, during the long interval between the two World Wars, the company reported deficits year after year and there were large arrears on the preferred—which at present amount to $58.50 a share and which are just being cleared up as of December. 2. No dividends were paid on the common stock from 1925 to 1945. Earnings for the 9 months of current year to September 30, 1946 amounted to $36.05 a common share compared with $6.76 in the corresponding period of 1945. Initial dividend of $12.00 is payable December 24, 1946 to stockholders of record December 5.

The new $4.00 preferred stock offered in exchange for the noncallable 7% preferred is convertible into common on the basis of 2 common shares for each preference share. Financial condition of company is strong.

We do not think it advisable to purchase a stock on earnings which are short-lived but believe an investor should take a long range viewpoint. In normal peacetimes the woolen industry is plagued by an over-productive capacity and intense competition which results in narrow profit margins. New wage demands on the woolen and worsted industry are expected to be made in connection with the reopening of contracts next February.

We recommend temporary retention of your 100 shares of common stock but, on any sharp advance in the near future, we recommend sale as the long term outlook for this company does not appear favorable. We do not advise additional commitments in this stock for the same reason.

Widow Seeks Counsel

Four months ago I was left a widow. am 39 and have a boy 3½ years old. I have $5,000. which is about one-quarter of my capital to invest. Would you please advise me what stock or stocks to invest it in as a good income investment, also some good speculative stocks.
I had 20 shares of American Safety Razor bought at 14 and sold at 65. Now it has split and is around 17. Do you think that would be a wise buy? Would you advise to buy now or hold off a while longer?
I appreciate the valuable articles in your magazine and hope this letter will be answered soon.

G. R., Chester, Pa.

We are sorry to hear of your bereavement and hasten to extend our condolence.

We have given careful consideration to your problem and realize how important it is for you to receive a good income and your natural desire for capital enhancement.

In view of general market uncertainties at this time, we advise deferring new commitments until the market reaches a lower level and stabilizes. We suggest you be guided on market outlook by the articles appearing regularly in our magazine by A. T. Miller and, when he indicates that a buying zone has been reached, then we will present some securities with above average attraction. It will be best for you to confine your purchases to sound, dividend paying equities with continued growth prospects, rather than speculative issues.

The near term outlook for American Safety Razor continues highly promising, as 1946 earnings may approximate $3.00 a share. 75¢ in dividends have been paid thus far this year compared with 50¢ for all of 1945. The stock appears conservatively valued in relation to near term earnings; however, the safety razor and allied fields will soon return to a highly competitive position with resulting narrowing of profit margins. The stock is too speculative for long term investment for a widow.

(*Please turn to page 283*)

Keeping Abreast of Industrial and Company News

With all eyes turned upon Washington in hopes for a speedy settlement of the coal strike, managements in nearly every major industry are being forced to take prompt action on the chance that almost over night their supplies of fuel may reach the vanishing point.

If the nation is to survive, claims Chairman Irving S. Olds of the United States Steel Corporation, law and order must be on a plane where no one man or group can indefinitely paralyze the business activities of the country. Operations in his company's mills have been materially curtailed already and without coal could soon come to a virtual standstill.

Among other large steel producers hard hit are Bethlehem Steel, with 50 of its open hearths shut down, Carnegie Steel with 33 closed, Republic with 13 in the same fix as to blast furnaces, and so on right down the line. It is estimated that nearly 100,000 workers have been laid off in the steel industry thus far, and of course the number will expand speedily until the picture changes.

And as for the automobile industry, if steel supplies shrink as they did during the spring coal and steel strikes, current inventories would suffice to continue operations on even a modest scale for very long. So catastrophic and widespread, however, are potentials arising from stoppage of coal production that optimists expect the strike to fall of its own weight, a feeling shared by most thinking people.

Confidence in this premise is heightened by the recent prompt absorption by investors of the record breaking offering of $100 million General Motors Corporation 3 3/4% preferred stock at par. Looking ahead after a brief interval for adjustments in the economy, majority opinion expects a period of excellent business in store for the nation.

Chrysler Corporation is the latest competitor in its field to announce a price advance for its cars. To widen profit margins more nearly attuned to current costs, price boosts ranging from $8 on a Plymouth four-door sedan up to $104 on the Chrysler New Yorker will be put into effect immediately.

In the opinion of William Rados of Schenley Distillers Corporation, return of a buyers market will cause industry to hire and train 5 million additional salesmen in order to keep abreast with the competition in sight. But just where he expects to recruit this army unless unemployment expands substantially, he does not say. And not every job seeker would fill the bill.

Although a backlog in orders of $229 million on October 1 was the largest in the long experience of Pullman, Inc., reports D. A. Crawford, president, net income for nine months came to only 58 cents per share, against $2.26 in the relative 1945 period. This shows what mounting costs of labor and materials plus serious shortages can do to net earnings of a strong concern, in the absence of freedom to set its own prices.

Following announcement of the dissolution of the joint tractor business long conducted by the Ford-Ferguson interest, Mr. Henry Ford 2nd says that Ford Motor Co. plans a new company to build and distribute not only tractors but other farm implements and machinery as well. Distributors and dealers will be appointed throughout the country.

Herbert H. Schnell, chairman of a special National Association of Manufacturers' committee, reports that between 1929 and 1937 more than 42% of world trade was controlled by cartels or combines. Such an inimical threat to competitive enterprise, he believes, tends to foster Government controls and even nationalization of industry.

Sharp increases in electric energy consumption in certain States since the outbreak of war is cited as evidence of expanding industrial decentralization, according to the Federal Power Commission. In the tally, Arkansas leads with a gain of 377.6%, followed by Washington with 235.2%, Oregon and Alabama tied with 159.9% and Texas a close next with 159.7%. Five other States report gains of over 100%.

At a recent meeting of the Tanners' Council of America, members received strong advice not to expand their inventories just because of a marked improvement in the supply of hides, although not many tanners have more than a four weeks supply on hand. Caution that consumer resistance may soften prices in coming months was the basis for the advice, heartedly endorsed.

On the first day when the New York Telephone Company established its new radio-telephone service for automobiles, more than 100 calls are reported to have been put through. The first call was from a car in Times Square, from which the owner conversed with his branch office in Paris. Another talked with a friend in California.

Aggressive Chesapeake & Ohio R. R. is right up to date with its plans to modernize this industry. In January, travelers on this road, the Pere Marquette and Nickel Plate will be able to telephone for a reservation for either Pullman or coach seats, step directly upon the train and pay the conductor for the ticket. No more waiting in line at a ticket office.

Confirmation by the Supreme Court that "death sentences" imposed upon certain holding companies in the Public Utility Industry are entirely legal at least settles once and for all this long controversial subject. The decision involves American Power & Light Co. and Electric Power & Light Corporation, both subsidiaries of Electric Bond & Share.

Development of detergent or synthetic soaps is likely to cause major changes in consumer preferences within the next few years, predicts Robert P. Russell, president of Standard Oil Development Co. Before very long, he predicts, at least 25% of all soaps used will be made from oil or natural gas. The big soap makers already are on the market with detergents of this kind.

Radio Corporation of America has ground for believing that production of television sets in 1947 will top all previous estimates. Optimism stems from results obtained during the company's first week of promotional campaign. RCA is training 2500 special salesmen to demonstrate the equipment in retail stores.

Potentials for the Rubber Industry are enhanced by a new edict announced by CPA in Washington. For the first time since 1942, manufacturers of automobiles may now sell cars equipped with a spare tire and tube, thus perhaps raising sales for standard equipment by the rubber concerns by 20%.

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PART I—Where Various Industries Stand in Our Modern Economy

—Appraises Position and Outlook for Mature, Stable, Growth and Embryonic Industries;

—Projects Effects of Politics on Industry . . . Extent of Government Control Likely . . . Anti-Trust Legislation . . . Where Possible Nationalization.

PART II—Yardsticks for Investment Under Today's Conditions

—Selecting Companies for Investment . . . for Profit . . . for Capital Building . . . in New Major Cycle;

—Reappraising Varying Trends for Individual Companies . . . Those Favorably Situated—Static—Marginal . . . Well-Entrenched vs. Newcomers;

—Sifting Companies from Standpoints of Working Capital . . . Reserves . . . Competitive Strength . . . Regional Shifts . . . Cost-Ratios . . . Record Management . . . Dividend Policies.

PART III—Basic Market Pattern for 1947

—Fundamental and Technical Factors Operative in Today's Security Markets . . . Prospective Government Regulation . . . Trend in Capital Gains Tax . . . Affects of Changes in Margin Requirements; Outlook in Money Market.

—Explaining Market Cycle . . . Timing Buying as Major Turn Develops . . . Choosing Peaks to Sell on Intermediate Rallies Advantages and Fallacies in Use of Charts . . . Detecting Turning Points.

PART IV—5 Strategic Investment Plans for 1947

—Keeping the proper balance between cash and securities—with proven methods of bulwarking your investment position under varying conditions. Ways and means to recoup losses and secure profits . . .

1. *The Best Method for Averaging on Sound Issues Purchased at Higher Levels . . . Marking Down Process . . . Pyramiding — Theory and Practice;*
2. *When to Take Profits to Reduce Original Costs on Stocks Purchased for Investment Appreciation;*
3. *When and How to Accumulate Cyclical and Growth Issues for Long Term Capital Building;*
4. *Ways to Select Issues for Venture Capital—for Dynamic Profits . . . Use of Puts and Calls;*
5. *When to Buy Top-Grade Issues for Capital Building with Above Average Income Return.*

PART V—Balanced . . . Diversified Portfolios For $10,000, $25,000, $50,000

A—For Income and Safety . . . for maintaining income . . . for those retired, professional men, for widows.

B—For High Yield and Profit . . . for those able to take businessman's risk.

C—For Speculative Profit . . . for building capital with special emphasis on low-priced stocks.
For Venture Capital . . . where moderate sum can be set aside for issues with expansion possibilities.

TO READERS OF The MAGAZINE of WALL STREET . . . SEE NEXT PAGE

The BUSINESS ANALYST

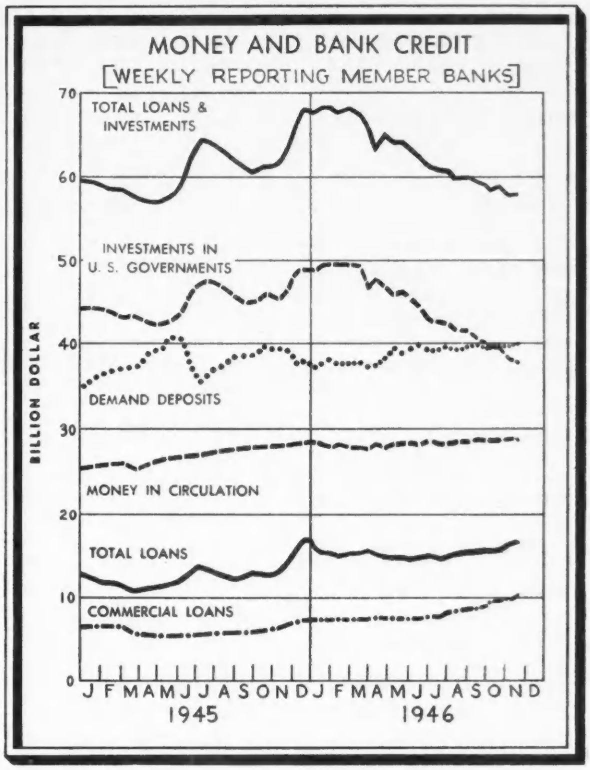
SUMMARY

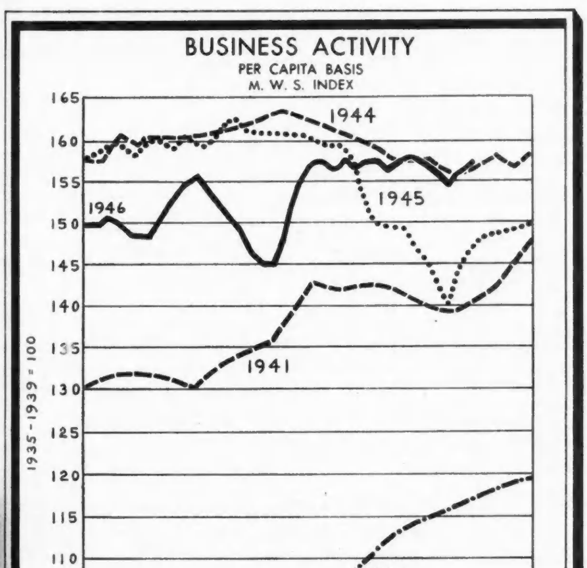
MONEY AND CREDIT—Commercial loans by weekly reporting member banks pass the $10 billion mark. Treasury to redeem in cash, before Dec. 15, an additional $3.76 billion of Government securities; thereby reducing the Federal gross debt to $258 billion, compared with $263 billion a year ago, and bringing the Treasury's cash balance down to around $2.5 billion.

TRADE—Department store sales in week ended Nov. 16 rise to 24% above last year, compared with gain of only 20% for preceding week. Store executives step up efforts to clear out substandard lines before their fiscal year ends to make way for better quality merchandise.

INDUSTRY—Business volume rises to within 2% of its all time high; but coal strike starts dip that will become severe if the walk-out is prolonged. Recent sharp rise in business inventories is largely due to price advances. On a quantity basis, the increase has been moderate.

COMMODITIES—M. W. S. index of spot commodity prices spurts to new high since its inception in 1932; owing to sharp up-pricing of wheat, cotton, wool, sugar, hides, petroleum, and non-ferrous metals. Cash wheat reaches new 26-year high. Labor Bureau's index of spot prices for 28 basic commodities is nearly three times as high as in August, 1939.





Business Activity rose by an additional fraction during the fortnight ended Nov. 16, to a level 7% above last year at this time and only 2% below the all-time peak touched during the closing week of May, 1945. From now on, however, the coal strike will precipitate a decline which will become severe if the struggle is long drawn out. This will not be a business depression in the economic sense; but only a relatively temporary strangulation of industry by one man who has acquired dictatorial control over the Nation's business life. When the strike is over, business activity will snap back.

* * *

Department Store Sales in the week ended Nov. 16, rose to 24% above last year, compared with a gain of only 17% a fortnight earlier. Responding to settlement of the parcels delivery strike, sales at New York City during the same fortnight jumped from 12% below, to 28% above, a year ago.

* * *

Store executives are stepping up their efforts to clear out substandard lines before their fiscal year ends in order to make way for better quality merchandise. Drastic **Markdowns,** for example, of undesirable upholstery and drapery fabrics, of which there is reported to be a 10 million yards oversupply, are scheduled for the near future.

* * *

Given the relatively free economy under which American industry will operate from now on, manufacturers'

(Please turn to following page)

Inflation Factors

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
MILITARY EXPENDITURE (ff) $b	Nov. 20	0.38	0.31	1.39	0.43
Cumulative from Mid-1940	Nov. 20	345.5	345.1	317.5	14.3
FEDERAL GROSS DEBT—$b	Nov. 20	261.8	261.6	264.0	55.2
MONEY SUPPLY—$b					
Demand Deposits—101 Cities	Nov. 20	39.8	39.5	39.8	24.3
Currency in Circulation	Nov. 20	28.7	28.8	28.2	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	Nov. 20	6.60	6.51	6.43	3.92
100 Other Cities—$b	Nov. 20	8.92	8.78	7.46	5.57
INCOME PAYMENTS—$b (cd)	Sept.	14.26	13.48	13.42	8.11
Salaries & Wages (cd)	Sept.	9.11	9.00	8.71	5.56
Interest & Dividends (cd)	Sept.	1.43	0.55	1.38	0.55
Farm Marketing Income (ag)	Sept.	2.02	2.19	1.86	1.21
Includ'g Govt. Payments (ag)	Sept.	2.03	2.25	1.88	1.28
CIVILIAN EMPLOYMENT (cb) m	Oct.	57.4	57.4	51.6	52.6
Agricultural Employment (cb)	Oct.	8.5	8.7	8.9	8.9
Employees, Manufacturing (lb)	Sept.	14.7	14.6	13.2	13.8
Employees, Government (lb)	Sept.	5.5	5.4	5.9	4.6
UNEMPLOYMENT (cb) m	Oct.	2.0	2.1	1.6	3.4
FACTORY EMPLOYMENT (lb4)	Sept.	146	145	128	147
Durable Goods	Sept.	169	166	145	175
Non-Durable Goods	Sept.	128	128	116	123
FACTORY PAYROLLS (lb)4	Sept.	284	278	224	198
FACTORY HOURS & WAGES (lb)					
Weekly Hours	Aug.	40.4	39.6	40.7	40.3
Hourly Wage (cents)	Aug.	111.1	109.3	102.4	78.1
Weekly Wage ($)	Aug.	44.90	43.34	41.72	31.79
PRICES—Wholesale (lb2)	Nov. 16	135.8	134.8	106.3	92.2
Retail (cdlb)	Sept.	162.6	159.8	142.0	116.2
COST OF LIVING (lb3)	Sept.	146	144	129	110.2
Food	Sept.	174	171	139	113.1
Clothing	Sept.	166	161	148	113.8
Rent	Sept.	109	109	108	107.8
RETAIL TRADE $b					
Retail Store Sales (cd)	Sept.	8.20	8.56	6.40	4.72
Durable Goods	Sept.	1.72	1.77	0.95	1.14
Non-Durable Goods	Sept.	6.48	6.79	5.45	3.58
Dep't Store Sales (mrb)	Sept.	0.75	0.72	0.52	0.40
Retail Sales Credit, End Mo. (rb2)	Sept.	3.68	3.54	2.19	5.46
MANUFACTURERS'					
New Orders (cd2)—Total	Sept.	228	212	166	181
Durable Goods	Sept.	255	232	121	221
Non-Durable Goods	Sept.	211	200	194	157
Shipments (cd2)—Total	Sept.	241	223	210	184
Durable Goods	Sept.	260	233	216	223
Non-Durable Goods	Sept.	227	216	206	158
BUSINESS INVENTORIES, End Mo.					
Total (cd)—$b	Sept.	32.3	31.3	27.0	26.7
Manufacturers'	Sept.	18.9	18.4	16.4	15.2
Wholesalers'	Sept.	5.0	4.8	3.9	4.6
Retailers'	Sept.	8.4	8.1	6.7	7.2
Dept. Store Stocks (mrb)	Sept.	2.0	1.9	1.4	1.4

PRESENT POSITION AND OUTLOOK

(Continued from page 269)

and dealers' **Resistance to Overpricing** and unreasonable wage demands promises to become even more effective than consumer economies in holding prices down.

* * *

Business Inventories, measured in dollar values, continue to rise; but most of the expansion is due to sharply **Rising Prices.** On a unit quantity basis, manufacturers' inventories at the end of September were only 3.3% larger than a year earlier, while retailers' inventories were up only 0.9%. The greatest increase on a quantity basis was 6.6% in wholesalers' inventories.

* * *

Despite the sharp rise of 10.7% in **Wholesale Prices** during the three months ended Aug. 15, total business inventories, on a unit quantity basis, were only 1.1% greater at the end of September than three months earlier.

* * *

Thus it appears that business inventories at the present time are not inflated as to quantity, but only as to price. A sharp reversal of the price trend would thus entail heavy **Inventory Losses.** Such reversal is not in sight yet—in fact another round of major strikes would lift prices still higher—but the potential danger will bear watching.

* * *

Now that the Government has terminated its buying of foreign **Copper,** private importers will have to pay the 4 cents duty unless, as is rumored, the Government may decide to cut this in half. Meanwhile producers here have raised their price to 19½ cents, compared with the current import price of 21½ cents under the 4-cents duty. The late ceiling price was 14⅜ cents.

* * *

Prices of other **Non-Ferrous Metals** have been advanced a few cents since ceilings were removed; but a number of producers will gain little from this since Government subsidies will be correspondingly reduced.

* * *

A few industrial consumers have been helped by the lifting of ceilings, in cases where obtaining supplies has been of more importance than prices paid. **Lumber,** for example, was being withheld from market in huge quantities in anticipation of higher prices. The hoarded lumber that is now being released is better seasoned than the green stuff that formerly trickled through the black market. Nevertheless, dealers are refusing to stock up at the exorbitant prices now asked.

Production and Transportation

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
BUSINESS ACTIVITY—I—pc	Nov. 16	157.2	156.4	148.4	141.8
(M. W. S.)—I—np	Nov. 16	171.7	170.8	160.6	146.5
INDUSTRIAL PROD. (rb)—I—np	Sept.	181	179	162	174
Mining	Sept.	144	145	124	133
Durable Goods, Mfr.	Sept.	213	212	186	215
Non-Durable Goods, Mfr.	Sept.	168	164	154	141
CARLOADINGS—t—Total	Nov. 16	917	913	801	833
Manufactures & Miscellaneous	Nov. 16	398	402	355	379
Mdse. L. C. L.	Nov. 16	131	131	116	156
Grain	Nov. 16	49	49	56	43
ELEC. POWER Output (Kw.H.)m	Nov. 16	4,700	4,682	3,985	3,267
SOFT COAL, Prod. (st) m	Nov. 16	12.6	12.7	11.5	10.8
Cumulative from Jan. 1	Nov. 16	477	466	508	446
Stocks, End Mo.	Sept.	52.4	48.0	53.4	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Nov. 16	4.8	4.8	4.5	4.1
Gasoline Stocks	Nov. 16	88	87	82	88
Fuel Oil Stocks	Nov. 16	60	61	45	94
Heating Oil Stocks	Nov. 16	67	67	46	55
LUMBER, Prod. (bd. ft.) m	Nov. 16	461	457	270	632
Stocks, End. Mo. (bd. ft.) b	Sept.	4.1	3.9	3.7	12.6
STEEL INGOT PROD. (st.) m	Oct.	6.97	6.52	5.60	6.96
Cumulative from Jan. 1	Oct.	54.3	47.3	67.4	74.7
ENGINEERING CONSTRUCTION AWARDS (en) $m	Nov. 21	78	112	46	94
Cumulative from Jan. 1	Nov. 21	4,815	4,737	1,989	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Nov. 16	138	185	123	165
Wood Pulp Stocks, End. Mo. (st)t	Sept.	71.9	77.6	67.4	98.5
U. S. Newsprint Consumption (st)t	Oct.	412	378	333	352
Do., Stocks, End Mo.	Oct.	348	372	428	523
Anthracite Coal Production (st)m	Oct.	5.4	5.0	5.3	3.8
Hosiery Production (pairs)m	**Sept.**	**158**	161	132	150

PRESENT POSITION AND OUTLOOK

Another striking instance is that of the **Corn Refiners,** who have been able to cut prices on their products; because corn at the old ceiling price of $1.46 was hard to get. At the ex-ceiling price enough corn can be had to permit capacity operations and much lower production cost, despite the higher price.

* * *

The banks are becoming more circumspect in granting applications for **Commercial Loans,** which have expanded all too swiftly since V-J Day. The total for reporting member banks at 101 centres has just passed the $10 billion mark —52% larger than a year ago. They now constitute 14% of total banking assets, against only 9% a year ago. Unfortunately the Federal Reserve Board did not begin compiling commercial loan totals on the present basis until May, 1937, so that comparable data are not available for 1920 and 1929; but, at their 1937 peak, commercial loans amounted to about 16% of total banking assets. By the end of 1938 they had shrunk by 28%.

* * *

The Treasury has announced that it will redeem with cash an additional $3,260,777,000 of securities maturing on Dec. 15. This will bring the **Federal Gross Debt** down to below $259 billion, from $263 billion a year ago, and will reduce Treasury cash to $2.5 billion.

ag—Agriculture Dep't. b—Billions. cb—Census Bureau. cd—Commerce Dep't. cd2—Commerce Dep't. Avge. Month 1939—100. cdlb—Commerce Dep't. (1935-9—100), using Labor Bureau and other data. en—Engineering News-Record. I—Seasonably adjusted Index. 1935-9—100. lb—Labor Bureau. lb2—Labor Bureau, 1926—100. lb3—Labor Bureau, 1935-9—100. lb4—Labor Bureau, 1939—100. lt—Long tons. m—Millions. mpt—At Mills, Publishers and in Transit. mrb—Magazine of Wall Streeet, using Federal Reserve Board data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, Instalment and Charge accounts. st—Short tons. t—Thousands. tf—Treasury and Reconstruction Finance Corp.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

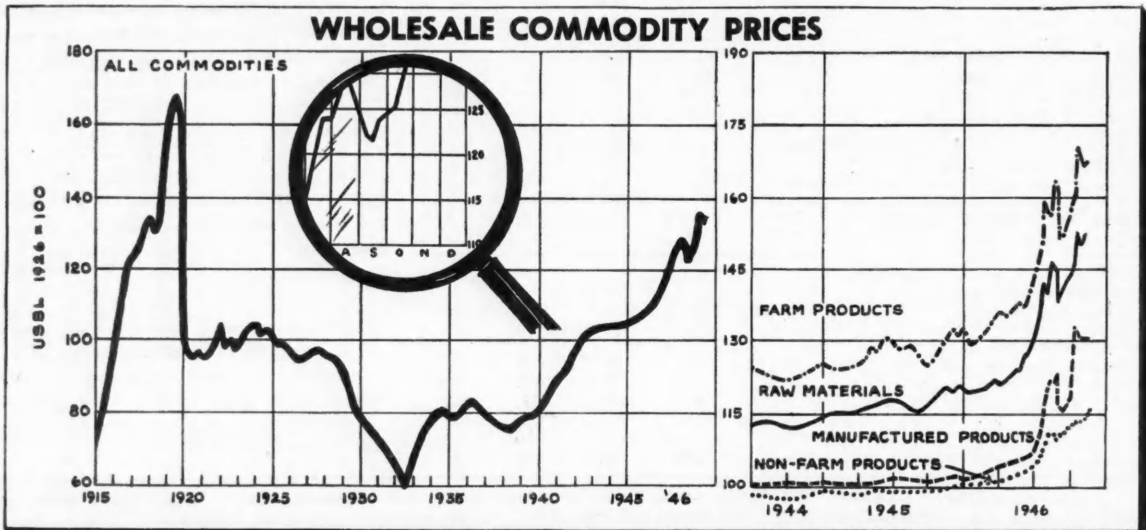
No of Issues (1925 Close—100)	1946 Indexes High	Low	Nov. 16	Nov. 23
300 COMBINED AVERAGE	191.7	129.8	134.1	129.8a
4 Agricultural Implements	265.7	150.9	156.6	150.9b
11 Aircraft (1927 Cl.—100)	284.4	153.7	170.3	153.7b
6 Air Lines (1934 Cl.—100)	1208.6	558.6	596.8	558.6a
5 Amusement	218.6	143.7	145.6	144.7
15 Automobile Accessories	336.2	181.0	187.9	181.0a
11 Automobiles	62.2	33.5	35.1	33.5b
3 Baking (126 Cl.—100)	26.0	20.2	23.1	22.0
3 Business Machines	360.3	255.1	268.1	255.1a
2 Bus Lines (1926 Cl.—100)	229.9	155.6	159.9	155.6a
4 Chemicals	290.2	214.1	216.9	214.1a
2 Coal Mining	32.4	18.4	19.1	18.4a
4 Communication	99.7	51.6	53.1	51.6c
13 Construction	85.1	56.1	57.0	56.1a
7 Containers	462.6	315.5	332.4	325.3
8 Copper & Brass	141.8	95.1	104.1	102.2
2 Dairy Products	81.5	64.6	67.5	65.0
5 Department Stores	132.9	71.2	74.7	71.2a
5 Drugs & Toilet Articles	277.4	194.8	205.1	200.7
2 Finance Companies	313.9	203.6	218.2	215.5
7 Food Brands	236.4	180.4	188.8	180.4a
2 Food Stores	100.3	69.7	74.4	69.7
3 Furniture	125.8	77.5	80.3	77.5b
3 Gold Mining	1346.1	767.9	821.1	794.0

(Nov. 14, 1936, Cl.—100)	High	Low	Nov. 16	Nov. 23
100 HIGH PRICED STOCKS	112.55	80.46	82.90	80.46a
100 LOW PRICED STOCKS	247.97	156.49	161.88	156.49
6 Investment Trusts	84.1	55.1	57.0	55.1a
3 liquor (1927 Cl.—100)	1479.8	858.3	936.5	858.3a
8 Machinery	206.4	130.5	134.9	130.5b
3 Mail Order	206.3	116.8	123.8	116.8a
3 Meat Packing	132.7	92.4	98.3	94.5
13 Metals, non-Ferrous	299.7	176.3	186.4	181.5
3 Paper	44.0	32.7	35.8	34.1
23 Petroleum	227.0	169.9	172.3	169.9a
20 Public Utilities	165.5	111.5	119.9	116.6
5 Radio (1927 Cl.—100)	42.0	19.4	20.7	19.4c
8 Railroad Equipment	110.6	63.4	66.9	63.4b
22 Railroads	40.8	22.5	24.6	23.4
3 Realty	56.7	26.7	28.4	26.7a
2 Shipbuilding	178.8	102.1	107.5	102.1a
3 Soft Drinks	647.0	446.0	478.0	462.6
12 Steel & Iron	149.3	106.9	111.4	106.9a
3 Sugar	88.9	62.1	65.2	63.8
2 Sulphur	295.3	236.9	245.2	240.3
3 Textiles	189.7	126.7	132.4	127.8
3 Tires & Rubber	51.9	35.3	36.7	35.3a
5 Tobacco	99.6	76.6	80.2	79.8
2 Variety Stores	399.3	299.4	315.3	299.4a
18 Unclass. (1945 Cl.—100)	116.1	83.1	85.3	83.1a

New LOW since: a—1945; b—1944; c—1943.

Trend of Commodities

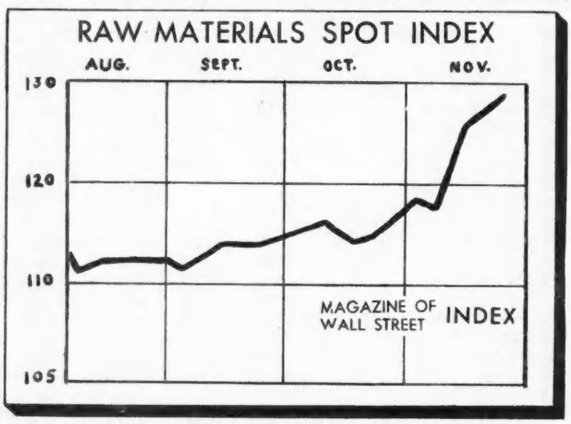
Removal of price ceilings on everything but rents, sugar and rice has resulted in a further sharp rise in spot price indexes to new heights since 1920. The Labor Bureau's comprehensive index of wholesale prices is now 27% ahead of last year, led by foods which are up 54%. The Bureau's narrower index of 28 sensitive basic commodities has risen nearly 200% since Aug., 1936. A similar explosive rise would take place in rents under the present housing shortage if free to respond to the economic law of supply and demand. In due time—it may not be many months hence—exorbitant prices will bring their own correction by stimulating production and curtailing demand; but no nose-dive resembling 1920-21 need be feared; since current inventories are not topheavy on a quantity basis, bank credit is not yet overextended, wage rates are soon to be raised another notch, and the Government is pledged to support farm commodity prices at a high level relative to pre-war. Futures have also rallied since our last issue, owing mainly to box car shortages, heavy Government purchases for export, and a tendency among some farmers to withhold grains this year in order to benefit by promised lower income taxes next year. Futures prices for distant months are down to only a little above Government support levels—considerably below spot markets, whereas normally they should rule a little higher to offset storage charges. For July futures, for example, wheat is priced at $1.79, against $2.41 for cash; corn, $1.30, against $1.60; and cotton 28.35 cents, against 31.54 cents.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODIES
Spot Markett Prices — August 1939, equal 100

	Date Nov. 23	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	298.7	270.3	260.7	242.6	193.0	187.0	156.9
11 Import Commodities	289.8	256.7	237.4	221.2	171.9	168.9	157.5
17 Domestic Commodities	304.6	279.5	277.0	257.6	208.1	199.7	156.6

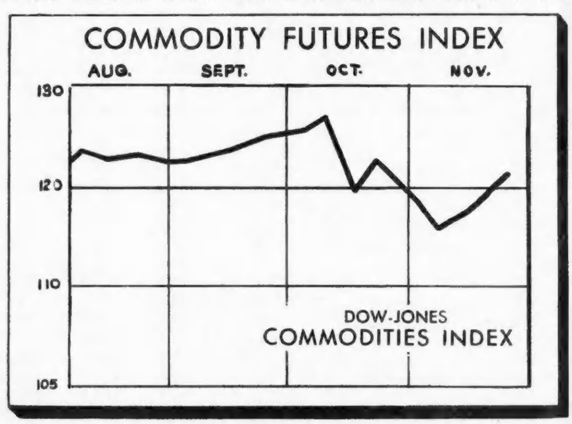
	Date Nov. 23	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
7 Domestic Agricultural	315.5	296.6	319.5	318.2	251.4	232.5	163.9
12 Foodstuffs	368.9	355.2	343.0	306.4	222.8	212.9	169.2
16 Raw Industrials	254.7	220.0	212.0	203.5	173.1	169.5	148.2



14 Raw Materials, 1923-5 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1946	1945	1944	1943	1941	1939	1938	1937
High	128.8	95.8	94.5	92.9	85.7	78.3	65.8	93.8
Low	95.5	93.6	91.8	89.3	74.3	61.6	57.5	64.7



Average 1924-26 equals 100

	1946	1945	1944	1943	1941	1939	1938	1937
High	127.07	106.41	98.13	96.57	84.60	64.67	54.95	82.44
Low	104.21	93.90	92.44	88.45	55.45	46.59	45.03	52.03

Opportunities for Income and Price Appreciation

(*Continuued from page* 265)

spend as much as $79.5 million along this line and additions to five of its plants in recent months had already absorbed about $25.5 million of available funds in its treasury.

NORTHERN PACIFIC RAILWAY has sold to underwriters $6.8 million equipment trust certificates due serially from 1947-56 at a net interest cost to the borrower of 1.983%. Subject to approval of the ICC, reoffering will be made on a basis 1.15% for the shortest maturity up to 2.15 for the longest. The coupon rate is 2%. The extremely favorable terms upon which good equipment issues can be sold attests to the extraordinary fine record which this investment medium has achieved for many decades past, despite radical fluctuations in railroad earnings. Chances are that in the medium term a great many carriers will enter the market to finance purchases of much needed equipment, and low money rates should stimulate the process. Several have already done so in recent weeks. As equipment issues are seldom very large in amount, they are readily absorbed by banks and insurance companies attracted by their strong fundamentals and relatively short maturities. It is probable that Chesapeake & Ohio will finance its recent purchase of $26 million rolling stock by issuance of several equipment issues, amounts to be decided as delivery of the cars begins to become realistic.

Down-to-Earth Analysis of the Airlines

(*Continued from page* 249)

plans for their postwar expansion, and when the conflict ended, they proceeded to translate these plans into reality. By the summer of 1946, orders for new equipment totalled 735 planes, or more than the 685 planes now owned by all *scheduled* operators. This new equipment alone entails a cost of approximately $355 million, aside from the substantial sums needed for ground facilities, accessory equipment and development of new routes. To finance this substantial program, the airlines had made careful plans for raising new capital funds in the third and fourth quarters of this year. Roughly 50% to 60% of this new money was expected to be in the form of new stock, but the sharp decline in the equity market has drastically altered these plans, but the sharp decline in the stock list quickly hit the "new issue" market, especially for venture type capital,' thus compelling drastic changes in the airlines' financing plans. Instead of the 50% to 60% stock formula originally hoped for, it now appears that no more than 20% may be raised through equities, the rest to come from bonds or bank loans. This would mean imposing a comparatively heavy debt burden on the industry at a critical phase of its development.

Time a Factor

From a timing standpoint, this is rather distressing, for the airlines cannot wait indefinitely in their cash-raising operations, since initial payments must soon be made on the new equipment ordered. However, the situation varies among the individual lines, specific figures on which are provided in the accompanying table, revealing which companies are hard pressed for new cash and which are relatively better off.

The prospect of heavier-than-anticipated recourse to borrowing injects a problem which had not been anticipated heretofore, and places a debt burden on a still young industry. As the nature of the industry is such that its obligations cannot command investment stature it would probably have to make substantial concessions to lenders. In any event, its debt charges would reflect a premium over investment-calibre lending rates, a prospect which is not very palatable to existing stockholders from the standpoint of dividend prospects. And, in the event of a business recession, the debt service would constitute

an added burden on cash resources.

However, as indicated earlier, the problems besetting the air transport industry do not alter their undisputed long-range growth potentialities. Eventually, the various operating and financial difficulties will iron themselves out, and the expansion now under way will provide a much enhanced base for long-range earnings growth. But it must again be emphasized that this is of ultimate rather than immediate prospect, so that holders of airline equities will require much patience in anticipating dividend income or capital appreciation.

Market Status

What market policy to pursue under such circumstances? The answer to that question depends primarily upon one's investment objectives. In our June 8 analysis, we commented bearishly on issues in this industry, but the market for such stocks has had a substantial decline since then, to a point where a good part of the adverse factors are probably recognized by current quotations. Unless one's objective is near term recovery, retention of any remaining commitments is suggested.

Relative Positions

As to individual companies, Eastern and United are probably in the strongest position, having fewer immediate problems, and fairly conservative expansion programs. To a somewhat lesser degree, this is also true of American, and of Northwest. Penn-Central and TWA, however, face the need of near term financing, and each has unique troubles in the form of labor troubles within their own organizations or their service territories. Pan American's position is doubtful, since much will depend upon the competition it faces abroad, and whether it can supplement its overseas operations with routes in this country as it has recently requested. The smaller airlines as a group, may encounter some difficulties in raising the large funds to which they are committed through their equipment purchase contracts.

An Investment Audit of J. C. Penney

(*Continued from page* 255)

bly greater extent than that of its competitors whose normal inventory included a relatively high percentage of merchandise that had been forced out of production.

Now that the trend is being reversed in the ratio of "soft goods" to total sales, it would be logical to assume that Penney management might be worried over the possible effects of reduced volume. Presumably, therefore, the chain may turn attention to the possibility of introducing semi-durable lines such as furniture and household furnishings that have been scarce. This policy would be something of a departure from precedent, but it is expected to be tested in some of the large metropolitan stores.

So far as the market outlook for the stock is concerned, it is well to remember that a higher-than-average appraisal usually is applied to Penney earnings to take into consideration the company's reputation for aggressive merchandising. Obviously, the current price-earnings ratio of seven to eight times prospective 1946 share results is exceptionally low. But this is due to the assumption that perhaps 40 to 50 per cent of current net income ought to be mentally labeled as "non-recurring" in the sense that the abnormally favorable profit margins likely must be pared when competitive conditions become more instensive.

What About Non-Ferrous Metals—Now?

(*Continued from page* 252)

The surprising peacetime demand for aluminum seems to be confounding earlier pessimists who feared that the immense wartime expansion in this industry would be a depressive factor with the return to normal operations. Output of domestic primary aluminum had fallen to about 500,000 tons in 1945, compared with 920,000 tons when usage for military aeroplanes was at its peak. But while it may be a long time before full use of the vast new plants built by the Government can be effected, all of them have now found buyers ready to compete with the former virtual monopoly enjoyed by Aluminum Company of America. Reynolds Metals now has a very sizable capacity as a contender in this field, and the Kaiser interests have a large plant on the West Coast. Newly developed uses for aluminum and scarcity of competing metals during 1946, have combined to hold output at a very satisfactory level. Indeed, rolled sheets of aluminum for use in building Veteran's homes have been in such short supply that the Government has them marked on

the critical list. As material for roofing, partitions, automobile bodies, railroad cars, wheelbarrows, ladders and a host of other items, aluminum currently is making strong competitive inroads. Ample volume has warranted retention thus far of the basic price of 15 cents per pound in the United States, although Canadian producers have shaded this price enough to offset the United States import duty of 3 cents per pound. But adjustments in exchange rates have lessened competition from this source. Net earnings of both ALCOA and Reynolds Metals have amply supported their dividends paid during the current year. In 1947, profits may show an upward trend, now that the way has been cleared for normal operations.

Limitations of space preclude a discussion of other non-ferrous metals, but a new and much brighter outlook seems in store for this essential industry. With freedom to adjust prices on a competitive basis and with many already raised, such as silver to above 90 cents per pound, some of the well diversified miners like Anaconda, Kennecott and Phelps Dodge should widen their profit margins substantially in the near term. In fact a new face upon the entire industry has emerged as a result of the return to free enterprise. For this reason, the appended table, listing a number of concerns, may be found of interest to our readers.

For Profit and Income

(*Continued from page 263*)

meet good demand during the rest of the bear market.

Lone Star Cement

One of the best building issues is Lone Star Cement. The company has voted total dividends of $4 a share this year, equalling the highest payments ever before made. Previous years in which $4 was paid were 1941, 1930 and 1929. Dividends have usually been generous when earnings were good. Assuming continuing $4-a-year payments, which we do, the yield at present price of 69 is nearly 5.8%. The bull-market high was 94, while low for the bear-market to date was 64.

Another One

The small-capitalization Ruberoid Company is likely to show net of around $6 a share this year, against $2.07 last year. It has paid some dividend in every year of its long history. The action of this stock suggests that there may be some good news in the offing, perhaps a large extra dividend. While the general market lost some ground between its October 10 and November 22 lows, Ruberoid advanced about 19% between those two dates. At present price of 50, it is over 24% above its bear-market low, but 23% under its bull-market high of 65. We can not say it would be immune to sharp further market weakness. We can say it looks more than soundly priced on present and potential earnings.

Real Wages of Savings

Every conservative investor knows that, since 1939, there has been a large shrinkage in the going rate of return on savings invested in high-grade bonds, and an even greater shrinkage in the

purchasing value of the remaining income, due to higher living costs. It has remained for the life insurance people to dramatize this in figures. Allowing for (1) decline in dollar income and (2) reduced purchasing value of the dollar, it is noted that "real return" from top-grade bonds is 42% less than in 1939. Unlike labor, those affected can not strike for bigger "take-home" income. All they can do is compromise a bit on the safety factor and average up the yield by resort to well-chosen common stocks. A few suitable issues for this purpose, offering yields of 5% or more, are American Gas & Electric, Chesapeake & Ohio, National Dairy Products, Beneficial Industrial Loan, and Pacific Gas & Electric.

Cumulative Growth Stocks

(*Continued from page* 258)

cies. While anyone could embark upon a similar program, and many have done so, efficient management of Coca Cola has succeeded in easily retaining its dominant position in the soft drink field. In the relatively short space of of 20 years income of its shareholders has expanded more than fivefold.

To sum up, investors desirous of placing their funds in some sound enterprise on the theory that holding for a long term should bring rewards amply sufficient to offset periodical anxiety over fluctuating prices for their shares require unusual astuteness in making their selections. Not only must previous records attest to stability in earning power, except in brief periods, but the business must have above-average promise of sustained growth in the future. While selectivity on this superplane is not easy to achieve, intelligent study can enfold plenty of opportunities. Above all, if acquisitions are made with sensible timing, yields at the start of such a program may be quite satisfactory. In the long run, if all goes well, income should expand along with the business, a factor which after all determines market quotations in the final reckoning.

Reopening Foreign Trade Channels

(*Continued from page* 241)

idea that our generosity should have to extend to tariff concessions, we will have to accept it if we are to live up to our own "Trade Proposals", if we want to lead the world back to freer trading and, lastly, if we want to combat actively the spread of communism. The reasons for it are quite obvious from the following sets of figures:

At the present time we are exporting at the rate of about $10 billion a year. This is a phenomenal figure, never reached before during peace time. It will probably be exceeded in the coming months. Already a bold forecast has been made that in two or three years our exports may well reach

an annual rate of $15 billion (for comparison, the 1939 exports amounted to $3.2 billion).

As against the exports of $10 billion, our imports are running at present at an annual rate of about $5 billion (in 1939 we imported $2.3 billion worth of goods). Hence our excess of exports amounts to about $5 billion. Actually, our international earnings are much higher. A good deal of world trade is still carried in our ships and we are getting a substantial sum as interest on our foreign investment. We could safely assume that our earnings in the so-called "current account" are at present at the rate of about $6 billion a year.

Where do the foreigners get this money? About $2.5 billion of our export surplus is represented by the UNRRA and Lend-Lease shipments; we paid for them, since these were our gifts and contributions. A billion dollars or so was this year provided through the Export-Import Bank loans, but the lending capacity of the Bank has been practically used up for the time being.

Consequently, about one-half of our current export surplus of $5 billion must be paid for by the sales of gold and by drawing on foreign bank balances here. The foreign holdings of gold are of course substantial, about $17 to $18 billion, but they are maldistributed, and further heavy shipments of gold to this country at this time would not help the stabilization of foreign currencies. The foreign-owned bank balances here are around $6½ billion; but they too are not always held by the countries which need them most, and at the present rate of drawing on them, they would last probably not much more than three or four years. Some dollars will eventually be provided to foreign countries through the International Bank and through the Monetary Fund.

The point is, however, that the United States cannot maintain the present export rate of $10 billion and possibly more, without spending more money abroad in current account transactions, i.e. for merchandise imports or for services provided for our tourists. At any rate, it is necessary that we provide the broadest possible basis for imports into this country and the largest flow of dollars into the hands of foreigners from current transactions. Or to put it in another way, the merchandise trade must flow both ways; a more evenly balanced trade is likely to prove far more stable than a trade showing either a huge excess of imports or an equally huge excess of exports. A more evenly balanced trade tends to be a larger trade because, to quote Dr. Maffry of the Export-Import Bank, "it militates against the imposition of trade regulations and barriers. And a larger two-way trade supports more jobs than a smaller two-way trade".

Imports that are non-competitive contribute to employment just as much as exports—for they make possible larger exports. But even competitive imports are desirable, because they promote a more efficient use of our own resources. Moreover, more imports at present help to combat inflation by enlarging the volume of goods.

The problem facing us now is what to import without seriously interfering with employment at home. It is a problem that is likely to be in the public eye from now on and we shall return to it in these pages. There is a chance that the imports of many products will expand from now on, now that the OPA restrictions have been removed. Many foreign products of which have been short and which went elsewhere because of higher prices offered for them, are likely to flow once more to our markets. Among these products were: linseed, wool, non-ferrous metals, newsprint, jute and burlap, and especially hides. The supplies of other products which we normally imported in huge quantities—such as rubber, copra, and silk—have been inadequate thus far, but in due time should help to swell our imports. Much the same is true about chinaware, glassware, wines, and innumerable products in the luxury and semi-luxury class that we used to get from Europe. Most of them are simply unobtainable as yet.

The problem of how to broaden our imports will be with us during the next few months and

we shall unquestionably return to it in these pages again and again. The fact remains that the trade must move both ways and that to live up to our position not only of the world's leading creditor nation but also of the chief protagonist of multilateral trading, we must show an increased willingness to buy—not only to sell. We can not afford to accumulate a $5 excess of imports year after year. We would be only inviting foreign countries to defend themselves by raising tariffs. We can finance the excess of exports by means of loans only up a point. Otherwise we are exposing ourselves to the danger of recreating the situation that existed in the late 'Twenties, when most of the countries were ultimately forced to default and when the bulk of our foreign investments became seriously imperiled.

There is one more consideration to which we shall return in the future. The prospect of a business recession and unemployment in this country, about which many people on this side of the Atlantic are still skeptical, seems to be already haunting the Europeans. One way to dispell their fears that they will be "dragged with us into a business slump" would be to show a generosity in negotiating tariff concessions. That would be an effective way of showing that we are sincere about maintaining the two?way flow of trade.

Modernization—A Solution to Our Cost-Price Problems?

(*Continued from page* 243)

a policy, even though defensible in some respects, may be injurious in the long run, both to the individual plant owner or corporation, and to the national economy as a whole, in view of the aggressive way in which plant modernization is being effected aboard.

Just how to solve such a dilemma, therefore? Obviously, the individual plant proprietor will not take the initiative, for a number of reasons. On the other hand, the Government cannot interfere in the realm of private property, no matter how well intended such intervention might be in these particular circumstances. So, the one remaining solution would appear to be a mutual approach to the problem by business and Government jointly, just as business and Government have cooperated in other spheres.

One approach might be to dismantle outmoded equipment in this country, and sell it abroad, replacing it with newer and more efficient equipment here. The obsolete machinery in turn, could be sold, at "second-hand" prices, to nations who are less advanced industrially, thus enabling them to produce more and to improve their standards of living. The actual sales of such equipment would involve many problems, such as arriving at equitable prices, terms of payment, determining standards and specifications, etc. But this is where the Government might logically enter the picture, in the role of adviser and middleman or broker, locating buyers for American equipment and bringing buyer and seller together.

That objections would be raised to this plan is only to be expected, but most of the objections are more apparent than real. For one thing, it might be argued that such a distribution of our facilities abroad would be creating eventual competition for our domestic industries, but much the same argument could be raised against our sale of new machinery, which we have been doing for many years.

Similarly, some might object that we could not compete with the lower wage scales abroad, which, with our equipment, might enable the foreign nations to invade our home markets, or to outsell us in world trade. But here, too, the identical point could again be raised regarding our new equipment sales abroad. However, there is the added fact that our equipment sold in this manner would be replaced here by more modern and more efficient facilities, which would give us a greater advantage over our competitors—both present and potential—overseas. At a time when production costs are mounting and the rivalry is becoming keener

among the leading nations of the world, this is no small consideration.

Given a chance to replace old equipment with new, our manufacturers would be better able to introduce some of the new, war-born technical improvements. On this subject, the Russians charge that our industry would stultify these innovations because the huge capital investment in already established facilitates. This, of course, is vastly over-simplifying the problem, and overlooks the fact that our continuous progress, technologically, has been built upon acceptance and development of new inventions and processes. But the proposed modernization plan would give added proof—if such proof were needed—of this country's continued receptivity to progress and improvement.

Actually, the plan thus suggested has a precedent in comparatively recent history, in the case of Germany after World War I. Obliged to heavy reparations payments by terms of the Versailles treaty, the Germans handed over large amounts of rolling stocks, ships, machinery and other assets to the Allies. For awhile, it appeared that this would be a crippling blow to that country's economy, but in a few years these were replaced with ultra-modern trains and ships, which were among the best in Europe, and by new industrial equipment, which gave the Germans a great competitive advantage in the world market. What this meant in preparing for World War II has already been touched upon, and needs no further elaboration here.

Still another advantage of the proposed plan is the benefit which would accrue to both the foreign recipients and ourselves. Aiding the industrialization of backward areas has been our traditional policy, both politically and economically, and we have played the major role in industrializing South America, China, and to some extent, India. By acquiring industrial plants and machinery, these countries have gradually increased their productivity, and, with it, their prosperity and standards of living. Better living standards, in turn, has meant greater purchasing power, and better ability to purchase American goods and services. Our policy of aiding industrialization abroad, therefore, has paid dividends in a very material, tangible way, in addition to the benefits which it has brought to the less fortunate nations.

In considering the practical aspects of the problem indicated, and of the solution suggested, it may be well to take an over-all view of American industry and some of the basic facts connected therewith. For one thing, the great majority of manufacturing corporations are small enterprises —nearly half have assets of less than $50,000, while roughly 80% have properties of less than $250,000.

While it is difficult to prove the contention statistically, other facts suggest that obsolete and less efficient machinery is concentrated mainly among the smaller operators, rather than among the top-ranking corporations, percentagewise as well as numerically. The larger enterprises are in a better position to keep abreast of technological progress by installing new equipment and providing adequate maintenance, though it is true that not all large concerns have done so. Nevertheless, a large part of the problem would still be centered in the smaller units, and the solution would have to be approached on this basis. This suggests the need for some mutual agency for dealing with the large, diverse element involved, embracing all types of industries and organizations. This is where the Government-business cooperative body, previously suggested, might meet the requirements.

The composition of our industrial picture also provides some significant suggestions on approaching the problem, as the types of equipment obviously vary among the industries represented. Out of the approximately 185,000 industrial establishments in the country, the largest single component is the food field and

its related lines, accounting for some 52,000 plants. Printing and publishing follows next, with about 26,000 enterprises, while clothing and apparel are represented by about 21,000 plants. Machinery (excluding electrical) and chemical each account for about 10,000 plants, and nonferrous metals about 6,000.

Another pertinent matter is the question of which industries spend the most for new plant and equipment. To properly evaluate this, it is necessary to go back to the immediate pre-war years, since data in the war period would obviously be distorted. Here, again, the food industry ranks prominently, with some $240 million invested in new plant and equipment in 1939, followed by $190 million by iron and steel, $160 million by the chemical industry, $140 million apiece for both the coal-and-petroleum-products field, and for machinery.

The problem, it is evident, has many facets and features, but it must sooner or later be faced, and its solution will profoundly affect the nation's future world position.

What Business Can Expect From Republican Congress

(*Continued from page 244*)

fiscal program: a balanced budget; substantial debt reduction; 20 per cent lowering of federal income tax; pruning of federal spending by at least 10 billion dollars; sharp cuts in the federal payroll.

Budget balancing is a possibility but not yet a probability; there are too many unknown factors in the months ahead to put this down as a sure thing. It would require continuance of present tax rates, in all likelihood, to put receipts and disbursements in balance and have something left over to begin seriously nicking at the public debt. *But there will be a tax cut—the amount remains for committee action, floor debate, and Presidential approval to decide. It is not likely to be 20 per cent.* Respected opinion forecasts at least a slight recession next year. To the extent that prosperity drops off the job of budget balancing will be made more difficult. Cutting federal costs by 10 billion dollars would require deep inroads into military budgets, and with the peace still unsettled there will be potent argument against tinkering with the national defense. Rep. John Taber, the economy plan sponsor, wants the federal payroll cut by 1 million paychecks. Agencies say this cannot be done without eliminating some and crippling other essential services. The figure probably will be 500,000 reduction and that would be better than a good start. Apparently not computed is the enormous and ever-increasing costs of the Veterans Administration in meeting the country's obligations to the war veterans.

The Case Bill will be the starting point on labor legislation. That is good strategy. It is an omnibus measure covering several types of union over-reaching and it will provide test votes on many basic reforms which might come up later, in separate bills, for further expanded treatment. And the Case Bill already has passed both houses, and therefore will not be time-consuming. President Truman vetoed the measure and was given the support of the needed one-third of the house to be sustained. But President Truman's views on labor matters have been swinging to the right and only minor changes, touching no fundamental points, need be made in the bill to win his approval. These slight alterations will save him the charge of inconsistency.

The spectacle of John L. Lewis for the second time in eight months leading 400,000 coal miners in a campaign to paralyze a nation of 140,000,000 has written the ticket for labor reform. It won't go as far as many Congressmen plan and as employers have been led to hope. The Wagner Act will remain, but it will be amended on the basis of 11 years of test. These are the likely changes—likely because it appears both Congress and the President will approve: compulsion on unions to bargain collectively, just as employers now are

required to do; making unions civilly liable for breach of contract; outlawing jurisdictional strikes; application of the anti-trust laws to unions; guarantee that employers may express themselves on the issues during union organizing campaigns.

Vindictiveness is not at the bottom of the Republican program for union legislation. And the final test will not be whether a statute is good for labor, or good for employers. The rights and interests of a third party, the erstwhile forgotten Mr. Average Citizen, will determine what labor peace mechanisms will be set up, which will be rejected.

Why Many Large Corporations Are Now Seeking New Capital

(*Continued from page* 238)

ness is likely to be maintained at considerably higher than the pre-war level (although of course well below the inflated peaks recorded on output of war materials) as a result of the tremendous deferred demand for goods for our people and for the industries, the heavy export demand for American goods from all parts of the world, the freeing of commodity prices, the hoped-for cessation of strikes and rise in labor productivity, peaceful international relations, and a reasonably balanced national economy here for some years to come.

Answers to Inquiries

(*Continued from page* 266)

Remington Rand, Inc.

Please furnish report on Remington Rand, Inc.

I. B., Racine, Wisc.

Remington Rand and subsidiaries manufacture and sell a diversified line of office and business equipment, including the following: Remington typewriters, manual and electric bookkeeping and accounting machines, adding and tabulating machines, index and filing systems, many kinds of office supplies, office furniture, filing cabinets, safe cabinets, etc.

Funded debt: $22,000,000, 2¾% debentures due 1960.

Capital stock: $4.50 cumulative preferred, par $25, outstanding 102,475 shares.

Common stock: Par $1.00, outstanding 2,018,516 shares.

Consolidated net sales for year ended March 31, 1946 amounted to $107,985,320. Net profit $6,541,139, equal to $3.01 a common share.

Sales for the six months ended September 30, 1946 approximated $62,250,000; net income $5,770,505 equal to $2.74 a share compared with $58,324,915 and $1.24 a share, respectively, in the like period of 1945. Dividend payments in 1946 were $1.30 cash plus 5% stock.

The more than 100 percent increase in net increase was due partly to increased operating profit from foreign subsidiaries and branches which showed a higher percentage of improvement than domestic divisions of the company during the six months period; and to repeal of excess profits taxes. Manufacturing operations have been expanded in England, Canada and India and a plant has recently been added in Holland.

According to the president of the company, the demand for company's products continues far in excess of production which has reached an all-time high.

Consolidated balance sheet, as of March 31, 1946 showed Total current assets of $50,943,391; Total current liabilities $23,486,182; Net current assets $27,457,209.

Brewing Corporation of America

Taking advantage of my privileges as a subscriber to your Magazine, could you please give me some information on Brewing Corporation of America. I would like to have the capital setup, shares issue, and, if possible, the equity held in the company by Canadian Breweries of Canada, and, insofar as you can, the pro-

Interesting Circulars

FOR OUR READERS

On request on your letterhead, but without obligation, any of the circulars listed below will be sent direct from the issuing firm. **Limit each letter to a request for one circular, giving your name and address.**

ADDRESS: Booklet Department—Magazine of Wall Street, 90 Broad Street, New York 4, N. Y.

For Business Executives: A valuable 20 page booklet on business management will be sent free when requested on your Company's letterhead.

Primer for Investors—Guide book for new investors to explain the terminology of Wall Street. Also a section devoted to estates, trusts and wills. Prepared by large N.Y.S.E. member firm.

Know-As-You-Go Guide—Descriptive leaflet of the Handy Record Book for investors, providing a simplified record of capital gains and losses. Method outlined to keep investment records in "automatic" order.

Forging Ahead in Business—64-page booklet describing program of executive training will be sent free when requested on your Company's letterhead.

25 Answers to Questions on Sound Conditioning. Interesting fact - pact booklet.

Selected Items of Merit—96 page book containing articles on various subjects.

gramme of expansion outlined.

G. S. Toronto, Canada.

Brewing Corporation of America and subsidiaries were engaged principally in the manufacture of automobiles from 1900 to 1931, when said operations were discontinued. In July 1933, the corporation's wholly owned operating subsidiary, Peerless Co., changed its name to Brewing Corporation of America and commenced remodeling a portion of its plant for the brewing of ale and beer. Production began in February 1934.

On May 23, 1945 the company obtained a $4,500,000 bank loan maturing at rate of $500,000 each year—December 31, 1946 to 1954, inclusive. There are 150,000 shares of common stock authorized, of which 145,000 shares are outstanding. Canadian Breweries, Ltd., has control of this company through holdings of 106,753 shares. Balance sheet as of September 30, 1945 showed Total current assets of $6,533,307; Total current liabilities of $1,693,367, leaving Net current assets of $4,839,940. For fiscal year ended September 30, 1945, common stock earned $6.84 per share compared with $5.30 in 1944. For the current fiscal year to September 30, 1946, common stock earned $14.42 which included $299,177 non-recurring profit. $2.50 in dividends were paid last year and $1.87½ thus far in the current year.

Sales for fiscal year of 1945 amounted to $22,704,221. Outlook for company's Carling's beer and ale continues favorable. We regret that we have no information as to company's expansion program.

Curtiss-Wright Corporation

Please advise recent sales and outlook for Curtiss-Wright Corporation.

F. M., Boston, Mass.

Net sales and other income for Curtiss-Wright Corporation for the 9 months ended September 30, 1946 amounted to $50,759,141 as compared with $913,697,532 for the corresponding period of 1945. The backlog of unfilled orders amount to $93,000,000 as compared with backlog of unfilled orders on January 1, 1946, of $59,986,773. Production during this period has been materially retarded due to drastic consolidation of activities and extensive plant arrangements according to the corporation's president. The consolidation of the corporation's activities have been substantially accomplished and improvement is anticipated in fourth quarter operations.

Denver & Rio Grande

What is the present status of the Denver & Rio Grande reorganization and when is the plan expected to be consummated.

M. I., Birmingham, Ala.

An effort is to be made to obtain from the U. S. Supreme Court a dissolution of the stay of the Denver & Rio Grande Western Railroad reorganization which has been ordered by the Circuit Court of Appeals. The stay was granted by Circuit Court Judge Orie L. Philips until the appeal of the debtor has been heard. This is an appeal from the refusal of the Federal District to grant a re-hearing on the order approving and affirming the Denver plan. The hearing on the appeal has been set for the January term of the Circuit Court. This court upset the reorganization plan but it was reversed by the U. S. Supreme Court. In taking the question of dissolving the stay to the Supreme Court, it is believed that it will be argued by the reorganization managers that the rejection of the petition for a re-hearing by the District Court is not an appealable matter.

The reorganization managers are also seeking authority for issuance of the new securities by the I. C. C.

In Our Next Issue:

Investment Yardsticks For 1947

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Indicated Pattern of Industrial Production

—Status of Industrial Groups As We Enter New Year